

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

---

A REVIEW OF THE STATE'S ADMINISTRATION  
OF THE STATE LEGALIZATION IMPACT  
ASSISTANCE GRANTS

---

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

F-944

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS

MAY 1990



Telephone:  
(916) 445-0255

STATE OF CALIFORNIA  
**Office of the Auditor General**  
660 J STREET, SUITE 300  
SACRAMENTO, CA 95814

Kurt R. Sjoberg  
Acting Auditor General

May 31, 1990

F-944

Honorable Elihu M. Harris, Chairman  
Members, Joint Legislative  
Audit Committee  
State Capitol, Room 2148  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the State's administration of the State Legalization Impact Assistance Grants (SLIAG). The report indicates that most of the 21 programs that administer the grant have adequate procedures for reviewing and processing claims from subrecipients that provide services reimbursable under the grant, for auditing subrecipients that are local governments, for identifying and recovering overpayments, and for collecting and reporting information for the primarily descriptive reports required by the grant. However, several programs did not have adequate systems to ensure that subrecipients' claimed costs were for recipients allowed under SLIAG, were sufficiently documented, or were reasonable. None of the programs had fully designed or implemented a system for receiving and reviewing the audits of nonprofit subrecipients, a system that must be in place no later than the first half of fiscal year 1990-91. Finally, the Health and Welfare Agency and four of the five administering departments did not ensure that they accurately accumulated data for certain federal financial status reports.

We conducted this audit to comply with Item 23.50(q) of the 1989-90 Budget Act.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kurt R. Sjoberg".

KURT R. SJÖBERG  
Acting Auditor General

## TABLE OF CONTENTS

	<u>Page</u>
<b>SUMMARY</b>	S-1
<b>INTRODUCTION</b>	1
<b>AUDIT RESULTS</b>	
I    A REVIEW OF CLAIMS PROCESSING	7
CONCLUSION	21
RECOMMENDATIONS	22
II   A REVIEW OF THE PROCEDURES FOR AUDITING AND MONITORING SUBRECIPIENTS AND IDENTIFYING AND RECOVERING OVERPAYMENTS	25
CONCLUSION	35
RECOMMENDATIONS	36
III  A REVIEW OF DATA COLLECTION AND REPORTING PROCEDURES	39
CONCLUSION	45
RECOMMENDATIONS	45
<b>APPENDICES</b>	
A    SCHEDULE OF FISCAL ACTIVITY FOR PROGRAMS RECEIVING THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS	47
B    SLIAG SERVICES AT THE HEALTH AND WELFARE AGENCY	49
C    SLIAG PROGRAMS AT THE STATE DEPARTMENT OF EDUCATION	51
D    SLIAG PROGRAMS AT THE DEPARTMENT OF HEALTH SERVICES	55
E    SLIAG PROGRAMS AT THE DEPARTMENT OF SOCIAL SERVICES	67
F    SLIAG PROGRAMS AT THE DEPARTMENT OF MENTAL HEALTH	73
G    SLIAG PROGRAMS AT THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT	77

**TABLE OF CONTENTS (Continued)**

	<u>Page</u>
<b>RESPONSES TO THE OFFICE OF THE AUDITOR GENERAL'S REPORT</b>	
<b>HEALTH AND WELFARE AGENCY</b>	79
Department of Health Services	83
Department of Mental Health	93
Department of Social Services	98
<b>STATE DEPARTMENT OF EDUCATION</b>	103
<b>BUSINESS, TRANSPORTATION AND HOUSING AGENCY</b>	
Department of Housing and Community Development	105

## SUMMARY

---

### RESULTS IN BRIEF

The State Legalization Impact Assistance Grants (SLIAG) assist the State and subrecipients in providing public health, public assistance, and educational services to eligible aliens. The grant is administered at the state level by the Health and Welfare Agency and five state departments and at the local level primarily by local governments and nonprofit organizations. During our review of the programs in the departments that administer the SLIAG for the State, we found that most programs had adequate procedures for reviewing and processing claims to ensure that costs claimed were reasonable and allowable; for receiving and reviewing audit reports for local government subrecipients of grant monies; for auditing and monitoring subrecipients of grant monies; for identifying and recovering overpayments; and for collecting and reporting information for the primarily descriptive reports required for the SLIAG.

However, several programs did have weaknesses in their procedures for reviewing and processing claims. Specifically, two of the programs did not have adequate systems to ensure that subrecipients' claimed costs were for recipients allowed under the SLIAG; two programs did not ensure that subrecipients' claims were sufficiently documented; six programs did not sufficiently review documented claims to determine whether the claims were reasonable; and one program contributed unnecessarily to delays in processing claims. Moreover, none of the programs with nonprofit subrecipients has fully planned or implemented procedures for receiving and reviewing audits for nonprofit subrecipients. In addition, one program did not have an efficient system for identifying and recovering overpayments. Finally, the Health and Welfare Agency and four of the five departments did not ensure that

they accurately accumulated data for the federal financial status report for fiscal year 1988-89.

---

## BACKGROUND

The federal Immigration Reform and Control Act of 1986 allowed certain persons residing illegally in the United States to apply for legal residency by November 30, 1988. More than 1.6 million people in California have applied for legal residency under the federal legislation. The federal government established the SLIAG to assist the State and subrecipients in providing services to eligible aliens. According to the Governor's Budget 1989-90, the State of California will receive an estimated \$1.799 billion in grant monies over a four-year period.

---

## PRINCIPAL FINDINGS

---

### Claims Review and Claims Processing Time

Most of the administering programs for the SLIAG had adequate procedures for reviewing and processing claims from subrecipients seeking reimbursement for SLIAG costs. However, 2 of the 21 programs authorized payments for categories of recipients not allowed under the SLIAG. In addition, 2 programs did not require subrecipients to provide enough information about certain costs to allow the program to determine the appropriateness of the claims. Moreover, 6 programs did not always sufficiently review documentation that supported claims to identify errors and determine reasonableness and allowability.

Furthermore, certain programs did not charge the SLIAG for program costs during fiscal year 1989-90. Programs in the Department of Housing and Community Development, for example, did not claim program costs because, until April 1990, the federal Department of Health and Human Services had not approved any program costs

incurred by this state department for reimbursement. In addition, according to the chief of the County Medical Services Program in the Department of Health Services, the program has postponed requesting reimbursement from the SLIAG for costs that the State has incurred, pending the implementation of a computerized system to identify aliens eligible under the SLIAG.

Finally, the administering programs took a wide range of times, from an average of 18.5 days to an average of 232 days, for processing claims from subrecipients. Frequently, circumstances beyond the control of the programs affected the time that they took to process claims. For example, some units wait for federal approval of rates or methodologies for cost documentation before fully paying claims. However, one program did contribute unnecessarily to delays in processing claims.

---

Procedures for Auditing and Monitoring  
Subrecipients and Identifying  
and Recovering Overpayments

Different auditing and monitoring requirements apply to different subrecipients of monies from the SLIAG. For all administering programs with local governments as subrecipients, an adequate system exists for ensuring the appropriate receipt and review of the required independent audits of the local governments. However, none of the administering programs with nonprofit organizations as subrecipients has fully planned or implemented procedures for ensuring the receipt and review of independent audit reports for these nonprofit organizations. These procedures must be in place no later than the first half of fiscal year 1990-91 because the audits are required at least biennially and most subrecipients have received money for two years. However, the Adult Education program in the State Department of Education and the Health and Welfare Agency both have set earlier deadlines for the submission of independent audits for their nonprofit subrecipients, but neither has a system established to enforce the requirement. Internal program monitoring procedures for many programs are also not yet fully developed and implemented.

Finally, although the administering programs generally have adequate procedures for identifying and recovering overpayments, the system used by the mental health programs in the Department of Mental Health is inefficient because of a lack of communication between two department sections involved with identifying overpayments.

---

#### Data Collection and Reporting Procedures

Each year, the Department of Social Services prepares three reports--and in 1990, one special report--using data from all departments participating in the SLIAG program. For the annual financial status report, the Department of Social Services summarizes the data by grant year and submits the summarized report to the federal Department of Health and Human Services. However, the Health and Welfare Agency and four of the five participating departments did not accurately accumulate data for this report prepared for fiscal year 1988-89. Specifically, the Health and Welfare Agency and four of the five departments did not reconcile data reported in their financial status reports with data in their accounting records. Also, one of these four departments made several errors in recording data. In addition, in preparing the financial status report, the Department of Social Services indicated that the report was prepared on an accrual basis although the data reported were actually a combination of accrual and cash basis data. Although either basis is acceptable, financial data should be reported using one basis or the other, not both. The Department of Social Services also inappropriately omitted approximately \$3 million in expenditures incurred for 1987-88.

Finally, the administering programs generally complied with the requirements for the three primarily descriptive reports required for the SLIAG.

---

## RECOMMENDATIONS

To comply with federal and state requirements for ensuring that claimed costs are reasonable and allowable and are processed appropriately, for auditing and monitoring subrecipients of grant monies, for identifying and recovering overpayments, and for ensuring the accuracy of information in required reports, the administering programs for the State Legalization Impact Assistance Grants should take the following actions:

- The programs should authorize payments only for categories of recipients allowed under the SLIAG;
- The programs should establish adequate procedures for ensuring that costs claimed are sufficiently documented and are reasonable and allowable;
- The programs should not unnecessarily delay the processing of claims;
- All programs should fully implement appropriate procedures to ensure that subrecipients of grant monies are adequately audited and monitored;
- The Department of Mental Health should implement a more efficient system for identifying and recovering overpayments;
- The Health and Welfare Agency and the departments should ensure that they prepare complete and accurate financial status reports. As part of their procedures, they should reconcile the amounts they report in their financial status reports with their departmental accounting records; and
- The Department of Social Services should ensure that the Health and Welfare Agency and each department reports on the same basis, either cash basis or accrual basis, for the financial status report.

---

**AGENCY COMMENTS****Health and Welfare Agency**

The Health and Welfare Agency and the Department of Health Services, the Department of Social Services, and the Department of Mental Health within the agency generally concur with our findings and have indicated that they have either corrected reported deficiencies or have provided plans of corrective action for the deficiencies. However, as we indicate in our report, the Department of Social Services believes that its review of county SLIAG claims for reasonableness and allowability is currently adequate. Nevertheless, the Department of Social Services will review its procedures to determine if additional procedures are needed to ensure greater accuracy of claims. In addition, the Department of Social Services believes that requiring counties to submit substantiating documentation for all charges to the SLIAG for the General Assistance program would be burdensome. However, the Department of Social Services will request counties to justify costs that appear unusual.

**State Department of Education**

The State Department of Education concurs with our findings and has indicated that it has either corrected reported deficiencies or has provided plans of corrective action for the reported deficiencies.

**Business, Transportation and Housing Agency**

The Department of Housing and Community Development agrees with our report's factual information about the department. In addition, the department provided current information on the status of the Office of Migrant Services program, which will not be eligible for SLIAG reimbursement.

## INTRODUCTION

The federal Immigration Reform and Control Act of 1986 allowed people who were living illegally in the United States to apply for legal residency if they qualified under regulations of the Immigration and Naturalization Service. Persons eligible for legal residency included those persons who had lived continuously in the United States since January 1, 1982, or who had worked in specific types of agricultural employment for at least 90 days before May 1, 1986. The deadline for applying for legal residency was November 30, 1988. The Governor's Budget 1989-90 stated that an estimated 1.6 million people in California have applied for legal residency under the Immigration Reform and Control Act.

The federal government has appropriated funds for the State Legalization Impact Assistance Grants (SLIAG), which are to assist the State and participating subrecipients in providing public health, public assistance, and educational services to persons eligible for legal residency under the Immigration Reform and Control Act. The SLIAG program has a four-year allocation period, ending in federal fiscal year 1991, and covers certain costs incurred by the State and subrecipients before the initial year of the grant. According to the Governor's Budget 1989-90, California will receive an allocation of an estimated \$1.799 billion in grant monies over the four-year period. The grant amount awarded for a fiscal year is available until it is completely spent or until September 30, 1994.

To participate in the SLIAG program in any fiscal year, the State must submit to the federal Department of Health and Human Services an application that identifies the programs and activities for which the State and participating subrecipients within the State have incurred or will incur costs that are potentially reimbursable under the grant. The federal Department of Health and Human Services reviews the application and approves those programs and activities that it considers allowable. The grant cannot be charged for services that are not included in the State's approved application. As the State and subrecipients incur costs, they determine the proportion of their costs that is reimbursable under the grant, and the State draws monies from the grant to reimburse its own costs and those of the subrecipients.

The Health and Welfare Agency is responsible for coordinating the State's implementation of the Immigration Reform and Control Act. The Health and Welfare Agency has established an advisory group to solicit input on implementation of the act from the Legislature, all affected state departments, local governments, private nonprofit organizations, and advocacy groups. Affected state departments consist of the State Department of Education, the Department of Health Services, the Department of Social Services, the Department of Mental Health, and the Department of Housing and Community Development. Within these departments, 21 separate programs provide services that are reimbursed under the SLIAG. Appendices B through G describe each of these programs and the procedures each uses for reviewing and paying claims, recovering overpayments, and auditing and monitoring

subrecipients. These descriptions are based on our observations and confirmed by program staff or policy manuals. The appendices include active programs, which have charged the grant for program costs during fiscal year 1989-90; inactive programs, which have not charged the grant for program costs during fiscal year 1989-90; and programs with only administrative costs. Appendix A provides a schedule of fiscal activity by program.

The SLIAG grant is very complex to administer. The grant's broad coverage of reimbursable services, the involvement of multiple state and local agencies, the combination of reimbursement of costs for existing programs and programs created specifically for the grant, the independence of each program in establishing its own policies for acceptable methods of determining costs, and the simultaneous presence of grant awards from several fiscal years all contribute to the complexity of the grant.

#### SCOPE AND METHODOLOGY

The purpose of this audit was to evaluate the results of the data collection, claims review, and auditing efforts of each department administering the SLIAG program. We assessed the policies and procedures for reviewing the documentation of claimed costs and paying claims, for monitoring and auditing subrecipients of grant monies, for recovering overpayments, and for collecting data and preparing reports

at each of the programs administering the grant in the Health and Welfare Agency, the State Department of Education, the Department of Health Services, the Department of Social Services, the Department of Mental Health, and the Department of Housing and Community Development.

To determine federal requirements for the documentation of costs charged to the grant program and federal and state requirements for auditing and monitoring subrecipients of grant monies, for recovering overpayments to subrecipients, and for collecting data and preparing reports, we reviewed pertinent federal and state laws, regulations, and guidelines.

To assess compliance with the requirements for documentation of costs charged to the grant program, we interviewed personnel in the administering programs; reviewed pertinent policy statements, procedure manuals, and forms; and reviewed claims from subrecipients for the reasonableness and allowability of costs claimed, the time taken to process payments, and the proper recording of the payments. To assess compliance with the requirements for the use of statistical samples for the Medically Indigent Services-Legalized Indigent Medical Assistance program, we also reviewed pertinent correspondence with the federal government and subrecipients. To assess the time taken to process claims, we reviewed claims for documentation of the date of receipt by the State and calculated the days taken to submit the claims to the State Controller's Office for payment. We also interviewed personnel to determine reasons for any apparent delays in processing.

To assess compliance with the requirements for auditing and monitoring subrecipients of program monies, we interviewed personnel in the administering programs and, where appropriate, separate audit units; reviewed pertinent policy statements and forms; examined contracts with subrecipients to determine whether the contracts required the subrecipients to provide for the appropriate audits; interviewed staff at the State Controller's Office and in the administering programs to determine whether findings had been reported that required follow-up; reviewed documentation of monitoring performed by administering programs; and reviewed records in administering programs to determine whether the programs appropriately followed up on reported findings.

To assess compliance with requirements for recovering overpayments, we interviewed personnel in the administering programs, reviewed accounting records and monitoring documents for identified overpayments, examined the accounting records and correspondence with subrecipients to establish the collection status of identified overpayments, and examined subsequent payments to subrecipients to determine whether payments were reduced by the amount of identified overpayments.

To assess compliance with requirements for data collection and reporting, we determined whether information was accurate in four reports prepared and submitted by the Department of Social Services, using data from the Health and Welfare Agency and all participating

departments. These reports are the annual financial status report, the annual application for participation in the grant program, the annual end-of-year report to the federal government, and the special report to the State Legislature submitted on February 13, 1990. We examined the accounting records for proper recording of expenditures, compared accounting records with reported financial data, examined the annual applications from the participating departments for evidence that costs for services reimbursed were included in the approved application, and compared descriptions of policies and procedures in the federal end-of-year report and the report to the State Legislature with our observations of actual procedures and policies used in the administering programs.

## AUDIT RESULTS

### I

#### A REVIEW OF CLAIMS PROCESSING

Most of the administering programs for the State Legalization Impact Assistance Grants (SLIAG) had adequate procedures for reviewing and processing claims from subrecipients seeking reimbursement for SLIAG costs. However, two programs in the Department of Health Services, the California Children Services program and the Sexually Transmitted Disease Control Program, authorized payments for categories of recipients not allowed under the SLIAG. Specifically, during fiscal year 1988-89, the California Children Services program claimed full reimbursement from the SLIAG for public assistance costs incurred for aliens who had only applied for, but not received, eligible status as required. In addition, the Sexually Transmitted Disease Control Program inappropriately paid for treatment services rendered to the sex partners of aliens eligible under the SLIAG.

Moreover, the General Assistance program in the Department of Social Services and the Sexually Transmitted Disease Control Program in the Department of Health Services did not require subrecipients to provide enough information about certain costs to allow the programs to determine the appropriateness of the claims. In addition, six programs in the Department of Mental Health, the Department of Social Services, and the State Department of Education did not always sufficiently review documentation that supported claims to identify errors.

Furthermore, certain programs have applied for reimbursement under the SLIAG but are not currently charging the grant. Programs in the Department of Housing and Community Development, for example, did not claim program costs because, until April 1990, the federal Department of Health and Human Services had not approved any program costs incurred by the department for reimbursement. In addition, the County Medical Services Program in the Department of Health Services has postponed requesting reimbursement from the SLIAG for costs that the State has incurred, pending the implementation of a computerized system to identify aliens eligible under the SLIAG.

Finally, although the time that programs took to process claims varied substantially, ranging from an average of 18.5 days to an average of 232 days, longer times taken to pay claims generally were the result of circumstances beyond the control of the programs. However, the Primary Care Clinics program in the Department of Health Services contributed unnecessarily to delays in processing claims.

Appendices B to G describe the procedures that each of the administering programs uses to determine the appropriateness of costs claimed by subrecipients. The appendices also identify the average length of time required to process the claims that we reviewed at each of the programs.

## REVIEW AND DOCUMENTATION OF CLAIMS

The Code of Federal Regulations, Title 45, Section 74.61(f), requires the State to determine that claims from subrecipients, such as local governments or nonprofit organizations, are reasonable and allowable. The Code of Federal Regulations, Title 45, Section 402.10, specifies that costs for public assistance, public health assistance, and educational services to aliens with eligible status are fully reimbursable under the SLIAG but that only public health costs are fully reimbursable for aliens who have applied for, but not yet received, eligible status. The Code of Federal Regulations, Title 45, Section 402.11(c), states that the amount of reimbursement may not exceed 100 percent of SLIAG costs.

The federal government holds the State liable for disallowances of claimed costs despite state agreements or contracts with subrecipients that have provisions for transferring such liability to the subrecipient. The Code of Federal Regulations, Title 45, Section 402.21, identifies as acceptable the following methods for documenting grant expenditures made to or on behalf of eligible aliens: (1) specific identification of actual costs; (2) statistical sampling; (3) application of a population ratio, based on information that the federal government and the State's Department of Finance provide and for use by public health programs only; and (4) any other reliable method of cost allocation subject to federal review. Sometimes subrecipients within a single program have a choice of

methods for claiming costs. The ways of demonstrating the reasonableness and allowability of costs vary under each of these methods.

For the actual cost method, programs document actual costs in various ways, which if followed appropriately, provide enough information about actual costs for the administering programs to determine whether claimed costs are reasonable and allowable for the SLIAG. For example, subrecipients may choose to document the types and number of services rendered, the number of persons receiving services, and the eligibility status of each person. As an alternative to documenting the number and type of each service rendered, a subrecipient may choose to document actual costs by identifying the providers of those services, the service rates, and the amount of time the providers spent rendering services for persons eligible under the SLIAG. Educational programs not only claim reimbursements by documenting actual costs, but also their reimbursements are statutorily limited to \$500 for each eligible alien served. Federal regulations allow the use of the actual cost method for all programs funded under the SLIAG.

Under the statistical sampling method of identifying SLIAG costs, subrecipients perform a statistical evaluation of the percentage of persons eligible for the SLIAG in the total population served for the particular program. The subrecipients then apply this percentage to total program costs to establish the amount reimbursable under the

SLIAG. Federal regulations allow the use of the statistical sampling method for public assistance and public health assistance programs funded under the SLIAG.

However, federal regulations allow the use of the population ratio method only for public health assistance programs. Using the population ratio method of identifying costs reimbursable under the SLIAG, subrecipients apply a percentage, provided to them by the administering programs, against their net program costs. The administering programs develop these percentages, which represent the proportion of the SLIAG population to a program's service population, based on population data from the federal government and the State's Department of Finance.

As Table 1 on page 13 indicates, each of the methods for claiming costs is in use. For example, public assistance programs such as Medi-Cal, Aid to Families With Dependent Children-Foster Care, and Aid to Families With Dependent Children-Family Group/Unemployed document actual costs and services rendered. Subrecipients of public health assistance programs such as the Sexually Transmitted Disease Control Program and the Tuberculosis/ Leprosy Control program sometimes use the population ratio method, which relieves the subrecipient of documenting individual client eligibility by allowing reimbursement of net costs based on a ratio of the population of eligible aliens to the program's total service population. Subrecipients of these public health assistance programs also have the option of claiming costs based

on the documentation of actual costs. Thus, both methods of determining costs are present in some programs. Use of the statistical sampling method is limited to the Medically Indigent Services-Legalized Indigent Medical Assistance program at the Department of Health Services and to claims from one county for the Mental Health Treatment program in the Department of Mental Health. As of April 1990, the State has only partially reimbursed claims based on the statistical sampling methodologies for these programs, generally because of concerns from the federal government.

As Table 1 shows, we found three types of problems with the programs' determination of the reasonableness and allowability of claims. Column 4 in the table indicates the programs that authorized payments for categories of recipients not allowed under the SLIAG. Column 5 indicates the programs that did not require adequate documentation of costs claimed. Column 6 indicates the programs that did not have adequate systems for reviewing claims. In the sections that follow the table, we discuss these weaknesses in more detail.

TABLE 1

THE METHODS USED FOR DOCUMENTING COSTS  
AND THE ADEQUACY OF CLAIMS PROCESSING  
FOR PROGRAMS THAT HAVE CHARGED THE SLIAG

<u>Department and Program</u>	<u>Nature of Program</u>	<u>Method of Claiming Reimbursement</u>	<u>All Tested Payments Made to Eligible Recipients?</u>	<u>Adequate Documentation of Claimed Costs?</u>	<u>Adequate Review of Claims for Reasonableness and Allowability?</u>
STATE DEPARTMENT OF EDUCATION					
Adult Education	Education	Actual	Yes	Yes	Yes
School Age Youth Program (K-12)	Education	Actual	Yes	Yes	No
DEPARTMENT OF HEALTH SERVICES					
Family Planning	Public Health	Pop.Ratios	Yes	Yes	Yes
Perinatal Services	Public Health	Actual	Yes	Yes	Yes
Adolescent Family Life	Public Health	Actual	Yes	Yes	Yes
IRCA Subvention	Public Health	Pop.Ratios	Yes	Yes	Yes
Sexually Transmitted Disease Control Program	Public Health	Actual/Pop.Ratios	No	No	Yes
Immunization Program	Public Health	Pop.Ratios	Yes	Yes	Yes
Tuberculosis/Leprosy Control	Public Health	Actual/Pop.Ratios	Yes	Yes	Yes
County Medical Services Program	Public Assistance	Actual	Yes	Yes	Yes
Medically Indigent Services-Legalized Indigent Medical Assistance	Public Assistance	Actual/Stat.Sample	Yes	Yes	Yes
Primary Care Clinics	Public Assistance	Actual	Yes	Yes	Yes
California Children Services	Public Assistance	Actual	No	Yes	Yes
Medi-Cal	Public Assistance	Actual	Yes	Yes	Yes
DEPARTMENT OF SOCIAL SERVICES					
State Supplementary Program	Public Assistance	Actual	Yes	Yes	Yes
Food Stamps for Special Agricultural Workers	Public Assistance	Actual	Yes	Yes	Yes
Aid to Families With Dependent Children-Foster Care	Public Assistance	Actual	Yes	Yes	No
General Assistance	Public Assistance	Actual	Yes	No	No
Aid to Families With Dependent Children-Family Group/Unemployed	Public Assistance	Actual	Yes	Yes	No
DEPARTMENT OF MENTAL HEALTH					
Mental Health Outreach	Public Health	Pop.Ratios	Yes	Yes	No
Mental Health Treatment	Public Assistance	Actual/Stat.Sample	Yes	Yes	No

NOTE: See the text for details about those programs with deficiencies.

**Payments Made to  
Ineligible Recipients**

Two of the 21 administering programs authorized payments for categories of recipients not allowed under the SLIAG. For example, during fiscal year 1988-89, the California Children Services program in the Department of Health Services claimed full reimbursement from the SLIAG for public assistance costs incurred for aliens who had only applied for, but not yet been granted, eligible status. The SLIAG Administrative Manual, Module 10, specifies that the cost of public assistance services to applicants is only partially reimbursable. The program's authorization of full reimbursement for services to applicants and to aliens who did not have demonstrated eligible status resulted in up to \$38,000 in overpayments for one claim in fiscal year 1988-89. Total program disbursements were approximately \$253,000 for that fiscal year. As of February 28, 1990, the program had no charges against the SLIAG during fiscal year 1989-90. The program is revising its claim form to require information on the eligibility status of aliens served. We also reported this finding in our report, "A Review of the State's Controls Over Its Financial Operations," Report F-904, March 1990.

The Sexually Transmitted Disease Control Program also inappropriately paid for treatment services rendered to the sex partners of aliens eligible under the grant. Although the claims from subrecipients do not supply enough information to allow us to determine the amount of costs paid specifically for the treatment of partners,

for the 14 claims based on actual costs that we tested, the claims recorded approximately \$41,400 in general reporting categories that included treatment of partners. In addition, certain claims specifically noted that costs were claimed for treatment of partners. As of February 28, 1990, total program costs were approximately \$2,357,000. The director of the Division of State Legalization Assistance of the federal Department of Health and Human Services has stated that his division and state program officials agreed that the costs of notification and examination for partners were allowable costs under the SLIAG but that treatment of partners was not.

Insufficient Documentation  
for Claimed Costs

Two programs did not require sufficient documentation for claimed costs. The General Assistance program in the Department of Social Services, for example, paid a claim for monthly general assistance that fluctuated between \$639 and \$1,858 for the same program participant. Although it has since determined that the costs were reasonable, the program did not require the county to justify the fluctuations in amounts charged before it paid the claim.

The Sexually Transmitted Disease Control Program in the Department of Health Services also did not always require sufficient documentation to support the reasonableness of the amounts that participating counties claimed as their actual costs. For 9 of the 14 actual cost invoices for fiscal years 1988-89 and 1989-90 that we

reviewed, the program paid between \$13 and \$164 for what appeared to be the same or similar categories of services although the counties' claims provided no information that would justify the different rates. These 9 claims totaled approximately \$234,000, and total program costs for both years were approximately \$2,357,000. The claims did not provide information on the nature and number of services rendered, on the costs of those services, on the level of medical personnel rendering those services, or on program income. Each of these factors could affect the amount claimed. We reported the portion of this finding that related to the 1988-89 claims in our report regarding the State's controls over its operations, issued in March 1990. The department believes that counties provide sufficient documentation for claims paid through the counties' descriptions of methodologies for identifying costs. In our judgment, however, these descriptions of methodologies are not adequate for determining the allowability of costs because they are only general descriptions of how the counties plan to report costs rather than specific data for a particular claim. The department stated that it will inform those counties with inadequate documentation that they must provide additional documentation for costs claimed.

Insufficient Review of  
Documentation for Claimed Costs

Six of the 21 programs did not ensure that claimed costs were reasonable and allowable. For example, the amnesty education office in the State Department of Education did not adequately review

documentation of claimed costs, resulting in an overpayment to a school district of more than \$7,000 for the School Age Youth Program (K-12). The overpayment occurred because the program approved both an original and a revised allocation to the school district and then erroneously paid the school district for both allocations.

In addition, we found several, generally minor, errors in claims paid by both of the mental health programs at the Department of Mental Health and several programs at the Department of Social Services. These errors consisted primarily of mathematical mistakes, recording errors, and improper use of population ratios. Although most of the errors involved insignificant amounts of money, the programs' systems should have been adequate to identify and correct such errors. Twelve of the 30 payments that we reviewed for the mental health programs contained such errors. For example, the Department of Mental Health did not identify a county's use of an incorrect population ratio, resulting in an underpayment to the county of approximately \$38,000. Four of the 48 payments that we reviewed at the Department of Social Services also contained minor errors. According to the chief of the fiscal policy and procedures bureau, the Department of Social Services believes that its audit procedures are adequate overall and that the intensive review procedures being recommended for every claim would not be cost beneficial. However, we believe that our recommended review for mathematical accuracy and reasonableness of amounts claimed does not constitute an intensive review that would require much time.

### Programs Not Charging the SLIAG

Certain programs have applied for reimbursement under the SLIAG, but are not currently charging the grant. The Department of Housing and Community Development, for example, has not charged SLIAG for any program costs because, until April 1990, the federal Department of Health and Human Services had not approved any program costs incurred by this department for reimbursement.

In addition, the County Medical Services Program in the Department of Health Services has not charged the SLIAG during fiscal year 1989-90. According to the chief of the program, the department is waiting for the implementation of a computerized system that matches the State's eligibility data for aliens served with data maintained by the federal Immigration and Naturalization Service. Such a system would minimize the under-identification of aliens who are eligible under the grant and, thus, would allow the identification of more costs for which the State could request reimbursement. Before fiscal year 1989-90, the County Medical Services Program had total program costs of approximately \$281,000 for the SLIAG.

### TIME TAKEN TO PROCESS CLAIMS

We found no specific federal or state guidelines establishing a maximum amount of time required to process claims that clearly applied to the program. However, withholding payments would clearly lengthen

the time taken to pay claims. The Code of Federal Regulations, Title 45, Sections 74.95 and 74.97, stipulates the conditions under which the State may withhold payments from subrecipients. Specifically, payments may be withheld when the State has reason to believe that the subrecipient has not complied with federal reporting requirements, when the grant has been suspended, or when the subrecipient owes the federal government money and withholding the payment would not impair the accomplishment of the objectives of the grant program.

The programs that administer the SLIAG had a wide range of times for processing claims that we reviewed. For example, the mental health programs at the Department of Mental Health had an average processing time of 18.5 days from the receipt of claims from program subrecipients whereas the California Children Services program at the Department of Health Services had an average processing time of 232 days. In some instances, these processing times are based on a small number of claims because, for many of the claims that we tested, the departments had not documented the date of receipt of invoices.

Frequently, circumstances beyond the control of the administering programs affect the time that they take to process claims. In other cases, the administering programs make partial payments on claimed costs, pending the approval of methodologies for statistical samples used to identify SLIAG costs. For example, for counties that claim costs based on statistical samples, the Medically

Indigent Services-Legalized Indigent Medical Assistance program at the Department of Health Services pays 50 percent of costs that counties claim within an average processing time of 135 days, but it has withheld the remaining amount of claimed costs because of concerns over the counties' statistical sampling methodologies. As a result, county claims totaling approximately \$6,310,000 for the Medically Indigent Services-Legalized Indigent Medical Assistance program remain unpaid. Problems with claims submitted by subrecipients, such as failure to sign the claims, also contributed to delays in payments. The processing times reported in the appendices reflect all of these legitimate reasons for delaying payment of claims.

The Tuberculosis/Leprosy Control program has withheld payments from its subrecipients for its program purposes. The program has withheld payment of claims from counties, taking an average of 122 days to pay claims. According to the chief of the tuberculosis control and refugee health programs unit, the program delayed payment pending receipt of certain assurances about the counties' intended uses of reimbursed funds. The chief of the program said that the program wanted assurances that SLIAG monies would be used by the local tuberculosis control programs to fund the additional services created by the SLIAG workload; that SLIAG funds would not be used to supplant local funds supporting services available to the general, non-SLIAG population; and that funding for local public health programs would not be distorted by the SLIAG workload. The chief of the program has indicated that, to avoid the potential loss of funds because of federal

close-out procedures, the program will authorize the payment of certain claims without having received the requested assurances.

One program has inappropriately contributed to the delay in paying subrecipients for services they have rendered to persons eligible under the SLIAG. Compared with other administering programs, the Primary Care Clinics program has been unnecessarily late in entering into agreements with nonprofit providers of services. Even though the program only takes approximately 43.8 days to process claims actually received, the nonprofit providers do not submit claims until after the agreements are approved, long after the providers have rendered services. For example, between July and October 1989, the program approved 75 agreements for the three-year period beginning in July 1988. Therefore, the agreements were approved one to three and one-half months after the end of the first fiscal year to which they applied and after the beginning of the second year. We reported this finding in our report regarding the State's controls over its financial operations, issued in March 1990.

#### CONCLUSION

Several programs that administer the State Legalization Impact Assistance Grants had some weaknesses in their processing of claims from subrecipients seeking reimbursement for SLIAG costs. For example, programs did not ensure that costs claimed were for recipients allowed under the SLIAG, were sufficiently

documented, or were reasonable and allowable. Moreover, certain programs have applied for reimbursement under the SLIAG but are not currently charging the grant. The programs in the Department of Housing and Community Development, for example, have not claimed reimbursement from the SLIAG because, until April 1990, none of the proposed programs had received federal approval. Finally, the programs took a wide range of time, from an average of 18.5 days to an average of 232 days, for processing claims from subrecipients. One program inappropriately delayed the processing of claims.

#### RECOMMENDATIONS

To comply with federal and state requirements for ensuring that claimed costs are reasonable and allowable and are processed appropriately, the administering programs for the State Legalization Impact Assistance Grants should take the following actions:

- The California Children Services program in the Department of Health Services should finalize a revised claim form that requires information on the eligibility status of aliens and should change its procedures to ensure that it claims reimbursement only for the allowable portion of the costs incurred for applicants. Moreover, the program should recover overpayments from the counties and return these amounts to the federal government;

- The Sexually Transmitted Disease Control Program in the Department of Health Services should change its procedures to ensure that it reimburses only the appropriate costs for the sex partners of aliens eligible under the SLIAG;
- The Sexually Transmitted Disease Control Program and the General Assistance program in the Department of Social Services should require all counties claiming costs on an actual cost basis to provide adequate documentation of those activities that affect the amounts charged;
- Several programs in the Department of Social Services and the mental health programs in the Department of Mental Health should develop procedures for reviewing claims that are adequate to determine the reasonableness and allowability of costs claimed. The amnesty education office in the State Department of Education should develop similar procedures for claims for the School Age Youth Program (K-12); and
- The Primary Care Clinics program should promptly enter into agreements to allow prompt reimbursement to subrecipients for services rendered.

## II

### **A REVIEW OF THE PROCEDURES FOR AUDITING AND MONITORING SUBRECIPIENTS AND IDENTIFYING AND RECOVERING OVERPAYMENTS**

Different auditing and monitoring requirements apply to different subrecipients of monies from the State Legalization Impact Assistance Grants (SLIAG). For all administering programs with local governments as subrecipients, an adequate system exists for ensuring the appropriate receipt and review of the required independent audits of the local governments. However, none of the administering programs with nonprofit organizations as subrecipients has fully planned or implemented procedures for ensuring the receipt and review of independent audit reports for these nonprofit organizations. These procedures must be in place no later than the first half of fiscal year 1990-91 because the audits are required at least biennially and most subrecipients have received money for two years. However, the Adult Education program in the State Department of Education and the Health and Welfare Agency both have set earlier deadlines for the submission of independent audits for their nonprofit subrecipients, but neither has a system established to enforce the requirement. Internal program monitoring procedures for many programs are also not yet fully developed and implemented.

In general, the administering programs have adequate procedures for identifying and recovering overpayments. However, the system for identifying overpayments used by the mental health programs

in the Department of Mental Health is not efficient because of a lack of communication between two department sections involved in identifying overpayments.

Appendices B through G describe, for each of the administering programs, the planned auditing and monitoring procedures and the policy for recovering overpayments.

#### AUDITING AND MONITORING PROCEDURES

Different auditing and monitoring requirements apply to different subrecipients of monies from the SLIAG. The administering programs address these requirements in a variety of ways: by relying solely on independent audits, by performing their own program monitoring procedures, or by using a combination of independent audits and internal program monitoring procedures.

The following table illustrates the planned auditing and monitoring procedures, the status of their implementation, and the adequacy of those procedures already implemented. The following sections of the chapter discuss deficiencies noted during our review and presented in the table.

TABLE 2  
 TYPES AND ADEQUACY OF AUDITING AND MONITORING PROCEDURES  
 USED FOR PROGRAMS THAT HAVE CHARGED SLIAG

<u>Department and Program</u>	<u>Type of Subrecipient</u>	<u>Independent Audit Required by Federal Government?</u>	<u>Adequate Procedures for Reviewing Independent Audits?</u>	<u>Adequate Follow-up on Reported Deficiencies?</u>	<u>Internal Program Monitoring Procedures?</u>	<u>Monitoring Procedures Fully Implemented?</u>
<b>STATE DEPARTMENT OF EDUCATION</b>						
Adult Education	Local Government Nonprofit	Yes; A-128 Yes; A-110	Yes No	Yes No	Yes Yes	Yes Yes
School Age Youth Program (K-12)	Local Government	Yes; A-128	Yes	Yes	No	No
<b>DEPARTMENT OF HEALTH SERVICES</b>						
Family Planning	Local Government Nonprofit	Yes; A-128 Yes; A-110	Yes *	N/A *	No No	No No
Perinatal Services	Local Government Nonprofit	Yes; A-128 Yes; A-110	Yes *	N/A *	No No	No No
Adolescent Family Life	Local Government Nonprofit	Yes; A-128 Yes; A-110	Yes *	N/A *	No No	No No
IRCA Subvention	Local Government	Yes; A-128	Yes	N/A	No	No
Sexually Transmitted Disease Control Program	Local Government	Yes; A-128	Yes	N/A	No	No
Immunization Program	**	Yes; A-128	**	**	**	**
Tuberculosis/Leprosy Control	Local Government	Yes; A-128	Yes	N/A	Yes	No
County Medical Services Program	**	Yes; A-128	**	**	**	**
Medically Indigent Services-Legalized Indigent Medical Assistance	Local Government	Yes; A-128	Yes	N/A	No	No
Primary Care Clinics	Nonprofit	Yes; A-110	*	*	Yes	No
California Children Services	Local Government **	Yes; A-128 Yes; A-128	Yes **	N/A **	No No	No **
<b>DEPARTMENT OF SOCIAL SERVICES</b>						
State Supplementary Program Food Stamps for Special Agricultural Workers	**	Yes; A-128	**	**	**	**
Aid to Families With Dependent Children-Foster Care	Local Government	Yes; A-128	Yes	N/A	Yes	No
General Assistance	Local Government	Yes; A-128	Yes	N/A	Yes	No
Aid to Families With Dependent Children-Family Group/Unemployed	Local Government	Yes; A-128	Yes	N/A	Yes	No
<b>DEPARTMENT OF MENTAL HEALTH</b>						
Mental Health Outreach	Local Government	Yes; A-128	Yes	N/A	Yes	No
Mental Health Treatment	Local Government	Yes; A-128	Yes	N/A	Yes	No

Note: See text for details about those programs with deficiencies.

N/A: No findings had been identified for this program as of our review date; therefore, follow-ups were not required.

\* No A-110 audits had been received as of our review date. For a discussion of the status of procedures, see page 30.

\*\* The State is the recipient of SLIAG funds for these programs, directly disbursing grant monies to beneficiaries or to providers of services, and is subject to A-128 audits. For this audit of the State, the federal Office of Management and Budget, Circular A-128 requires the federal government to determine the adequacy of completed audits and to follow up on reported deficiencies.

### Audits of Local Government Subrecipients

The federal Office of Management and Budget, Circular A-128, establishes the conditions under which a state or local government requires an A-128 audit and describes the independent A-128 audit requirements. Circular A-128 generally requires an annual independent audit of financial statements, an internal control review, and a review for compliance with federal and state laws and regulations affecting the program for all state and local governments that receive at least a specified amount in federal funds.

For all administering programs with local governments as subrecipients, an adequate system exists for ensuring the appropriate receipt, review, and follow-up of A-128 audits. The State Administrative Manual, Section 20050, states that the State Controller's Office is responsible for coordinating the A-128 audits for local governments and determining whether the A-128 audit reports are submitted to the State, whether they are adequate, and whether they contain any findings related to the SLIAG. In addition, the State Controller's Office is responsible for disseminating audit compliance guidelines to the appropriate units of local government. When the State Controller's Office discovers findings related to the SLIAG in the audit reports, it reports those findings to the state department responsible for administering that portion of the SLIAG program. The state department is then responsible for ensuring that the subrecipient has corrected the identified problems.

However, a potential problem exists for those programs that rely solely on the work of independent certified public accountants for cities and counties. The State Controller's Office is required to disseminate the federal compliance guidelines to counties, cities, and special districts. However, the federal government has not issued final guidelines for the SLIAG, and the State Controller's Office did not systematically disseminate the federal government's draft compliance guidelines to cities and counties for the 1988-89 A-128 independent audit. Therefore, the cities and counties and their auditors may not be aware of the compliance requirements for the SLIAG, and the State cannot be certain that city and county audits are conducted to meet federal compliance objectives.

#### Audits of Nonprofit Subrecipients

The federal Office of Management and Budget, Circular A-110, establishes the uniform administrative requirements for federal grants and other agreements with institutions of higher education, hospitals, and other nonprofit organizations and establishes the conditions under which these entities require an A-110 audit. For those entities requiring an audit because they have received at least a specified level of federal funding, the circular requires at least a biennial independent audit of the fiscal integrity of financial transactions and of compliance with the terms and conditions of the federal grants and other agreements. The administering departments are responsible for reviewing the A-110 audit reports and for ensuring that the

subrecipient has corrected identified problems. For fiscal years beginning on or after January 1, 1990, the Office of Management and Budget, Circular A-133, supersedes that portion of Circular A-110 specifically devoted to required audits, but Circular A-133 has many of the same audit requirements.

At the time of our reviews, none of the administering programs had fully designed or implemented its procedures for receiving and reviewing A-110 or A-133 audits of nonprofit subrecipients. These audit reports, required at least biennially, will be due no later than the first half of fiscal year 1990-91 for subrecipients that have received funds during the last two years. At that time, these programs will be required to have in place a system of notifying all nonprofit subrecipients of the requirement to have an A-110 or A-133 audit, of monitoring the receipt and review of the audit reports, and of following up on deficiencies identified in the audits.

The Adult Education program in the State Department of Education and the Health and Welfare Agency have specified that nonprofit subrecipients submit independent audits annually but then have not implemented enforcement procedures for their policies. The State Department of Education does not have a procedure in place to ensure that it receives and reviews the required A-110 audit reports for the nonprofit SLIAG subrecipients of the department's Adult Education program for fiscal year 1988-89. Although the department established a requirement for these subrecipients to submit audit

reports by December 31, 1989, departmental records indicate that, as of March 21, 1990, only 13 of the 66 nonprofit subrecipients had submitted their reports. The senior management auditor of the audit bureau and the manager of the amnesty education office have stated that the department is developing procedures to ensure the submission of the reports and that it will be the responsibility of the external audits unit to implement the procedures for fiscal years 1988-89 and 1989-90. Without the audit reports, the department cannot be certain of the subrecipients' fiscal integrity and adherence to the terms and conditions of the SLIAG.

The Health and Welfare Agency also does not have an effective system in place to receive and review the financial and compliance audits from its nonprofit subrecipients that contract to provide outreach services for the SLIAG. The contracts with the subrecipients specify that the audit reports are due 5 months and 15 days after the end of the subrecipient's fiscal year. However, as of May 3, 1990, the agency had not yet determined when each subrecipient's fiscal year ended, had not established a system to identify when the report for each subrecipient was due, and had not received any audit reports. The Health and Welfare Agency's monitoring system is not included in Table 2 because its contracts with nonprofit providers are for administrative rather than program services.

### Monitoring Requirements

The federal Office of Management and Budget, Circular A-102 Revised, which applies to all recipients of federal monies, requires the state or local governments to determine whether subrecipients spent federal assistance funds in accordance with applicable laws and regulations. Circular A-102 also establishes the requirements for monitoring private, for-profit entities. The circular indicates that private, for-profit entities are not required to have an independent financial and compliance audit. Instead, the circular requires the State to use its own procedures to ensure that private, for-profit entities have complied with laws and regulations affecting the expenditure of federal funds.

Many administering programs have not fully designed and implemented their monitoring procedures. For example, the Primary Care Clinics program in the Department of Health Services has designed a monitoring system but, as of our review, had not issued any monitoring reports. Also, the programs in the Department of Social Services have only partially implemented the procedures for monitoring the counties that are the subrecipients of the SLIAG funds. The "SLIAG Monitoring Plan," which is a program monitoring plan that includes detailed monitoring instructions and a tentative monitoring schedule, has been developed for the SLIAG programs in the Department of Social Services. However, as of our review date, the department had not conducted any monitoring visits. The Department of Social Services also has a

continuing contract with the State Controller's Office to audit administrative costs of subrecipients for the department's programs, including the SLIAG. Only the State Department of Education has an adequate and fully planned and implemented system of program monitoring for the subrecipients of its Adult Education program.

#### RECOVERING OVERPAYMENTS

The federal Department of Health and Human Services holds the State liable for unallowed costs paid to subrecipients of the SLIAG. Therefore, the State must either recover overpayments to subrecipients or repay the federal government from state funds. The administering programs generally have reasonable procedures for identifying overpayments. For example, some programs, such as the mental health programs in the Department of Mental Health and the Sexually Transmitted Disease Control Program in the Department of Health Services, review final expenditure reports from the subrecipients or final ratios for claiming costs to determine if reimbursements or advances to the subrecipients exceed allowable charges for the year. Other programs plan to perform site visits and audits or rely on independent audits to identify unallowed costs. As of March 1990, few overpayments had been identified. In general, the administering programs plan to recover identified overpayments by offsetting subsequent payments or by billing subrecipients directly.

Although the procedures for identifying and recovering overpayments are adequate in most administering programs, the procedures used by the mental health programs in the Department of Mental Health are not efficient. Even though the department's county allocation section determines the final actual rates for services and the rates are needed to identify overpayments, the department's Immigration Reform and Control Act (IRCA) section, which approves SLIAG payments, does not receive this information. Instead, the county allocation section sends the final actual rates to the counties, which should use the final rates to recalculate SLIAG costs for the period affected by the final rates. The IRCA section relies on the counties themselves to use the appropriate rates or on the reports of independent auditors to identify overpayments. Having the county allocation section provide the final actual rates directly to the IRCA section would minimize the inefficiencies that exist in the current system. An additional source of inefficiency during fiscal year 1989-90 was the IRCA section's failure to adjust claims that exceeded the maximum allowable rates in place during the year. For the 30 claims that we reviewed, the IRCA section authorized payment for approximately \$5,000 more than the allowable rates.

Moreover, those programs that must recover overpayments from nonprofit entities are more vulnerable to loss than are programs with only local governments as subrecipients. Nonprofit entities are likely to have limited revenue sources that are available to the State for recovering overpayments and are financially more vulnerable than local

governments. Therefore, early identification and collection of overpayments is important. The Adult Education program in the State Department of Education, for example, currently is owed approximately \$51,000 from three nonprofit subrecipients that are no longer participating in the Adult Education program, and the program does not have any current claims against which to offset the overpayments. Consequently, collecting the overpayments may be more difficult than if the opportunity to offset were available.

#### CONCLUSION

Different requirements for auditing and monitoring apply to different types of subrecipients of the State Legalization Impact Assistance Grants. An adequate system exists for ensuring the appropriate receipt and review of the required independent audits of local governments. However, none of the programs with nonprofit organizations as subrecipients has fully planned or implemented procedures for ensuring the receipt and review of independent audit reports for these nonprofit organizations. These procedures must be in place no later than the first half of fiscal year 1990-91. However, the Adult Education program in the State Department of Education and the Health and Welfare Agency have set earlier deadlines for the submission of audit reports for their nonprofit subrecipients, but neither has established a system to enforce the requirement. Many programs have also not yet

fully developed or implemented their internal program monitoring procedures. Finally, although most programs have adequate procedures for identifying and recovering overpayments, the mental health programs in the Department of Mental Health do not have an efficient system for identifying and recovering overpayments.

#### RECOMMENDATIONS

To comply with federal and state requirements for auditing and monitoring subrecipients of grant monies and to identify and recover overpayments, the administering programs for the State Legalization Impact Assistance Grants should take the following actions:

- The external audits unit in the State Department of Education and the Health and Welfare Agency should ensure that they receive and monitor the required A-110 audits for nonprofit subrecipients;
- All programs should fully implement the appropriate monitoring procedures that they have planned to ensure that subrecipients of SLIAG monies are adequately monitored; and

- The mental health programs in the Department of Mental Health should establish procedures to identify overpayments to subrecipients accurately and recover overpayments efficiently.

### III

#### **A REVIEW OF DATA COLLECTION AND REPORTING PROCEDURES**

Each year, the Department of Social Services prepares three reports--and in 1990, one special report--using data from all departments participating in the State Legalization Impact Assistance Grants (SLIAG) program. For the annual financial status reports, the Department of Social Services summarizes the data by grant year and submits the summarized report to the federal Department of Health and Human Services. However, the Health and Welfare Agency and four of the five participating departments did not ensure that they accurately accumulated data for this report prepared for fiscal year 1988-89. Specifically, the Health and Welfare Agency, the State Department of Education, the Department of Social Services, the Department of Health Services, and the Department of Mental Health did not reconcile the amounts that they reported for the financial status reports with their departmental accounting records. Also, the Department of Mental Health and the State Department of Education inaccurately recorded data for SLIAG. In addition, in preparing the summarized financial status report from the data submitted from the agency and all the participating departments for fiscal year 1988-89, the Department of Social Services indicated that the report was prepared on an accrual basis although the data reported were actually a combination of accrual and cash basis data. In the summarized report, the Department of Social Services also omitted approximately \$2.7 million, \$287,000, and

\$19,000 in expenditures incurred for 1987-88 by the Department of Mental Health, the Department of Health Services, and the Department of Housing and Community Development, respectively. Finally, the administering programs are also required to prepare additional, primarily descriptive reports for the state and federal governments, and the programs generally complied with the requirements for these reports.

#### FINANCIAL STATUS REPORTS

The Code of Federal Regulations, Title 45, Section 402.51, requires the State to submit annual financial status reports on the SLIAG. These reports record the actual grant expenditures, funds committed but not yet disbursed, and the remaining grant allotment for each year that the State has had an allotment of grant monies. The State may prepare the reports on either a cash basis or an accrual basis. The State Administrative Manual, Section 20014, requires agencies receiving federal funds to reconcile federal financial reports with their official accounting records.

Each year, the State submits to the federal government financial status reports that summarize data by grant year for the Health and Welfare Agency and all state departments that participate in the SLIAG program. The Department of Social Services prepares this report, based on its own financial data and the data submitted to it by the other departments. The typical procedures for the accumulation of

data at the agency and participating departments include the receipt of claims from subrecipients by the program units. The program units then review the claims for appropriateness of costs and adjust or approve claims for processing. The departmental accounting units prepare claim schedules for payment of amounts owed to subrecipients and record the expenditure and also the federal revenue that funds the expenditure. Each quarter, the departments summarize the data from their accounting records and submit the data to the Department of Social Services, which accumulates the data for the annual report.

As Table 3 on page 43 indicates, the Health and Welfare Agency and four of five departments did not ensure the accuracy of the data they reported in their financial status reports prepared for fiscal year 1988-89. The Health and Welfare Agency, the State Department of Education, the Department of Social Services, the Department of Health Services, and the Department of Mental Health did not reconcile the amounts they reported in the financial status reports with their departmental accounting records. Also, the Department of Mental Health made several errors in recording financial data for the SLIAG. For example, the department did not record an entry, resulting in an understatement of expenditures of approximately \$82,000. The department also misclassified approximately \$13,000 in public assistance expenditures as public health assistance expenditures. In addition, the State Department of Education did not include approximately \$371,000 in encumbrances.

Moreover, in preparing the summarized financial status report for 1988-89, which includes the data from the agency and all the administering departments, the Department of Social Services made errors. The report, which the State indicated was prepared on an accrual basis, actually contained data on both accrual and cash bases. The Department of Health Services, the State Department of Education, the Department of Mental Health, and the Department of Housing and Community Development indicated that they prepared their data for the summarized report on a cash basis whereas the Health and Welfare Agency and the Department of Social Services indicated that they prepared their data for the report on an accrual basis. Although either basis is acceptable, financial data should be reported using one basis or the other, not both.

In addition, in the summarized financial status report, the Department of Social Services inadvertently omitted approximately \$2.7 million, \$287,000, and \$19,000 in expenditures incurred for 1987-88 by the Department of Mental Health, the Department of Health Services, and the Department of Housing and Community Development, respectively. After we informed the Department of Social Services of these errors, the department submitted a revised financial status report that corrects the quantitative errors noted above.

The following table shows the accuracy of the participating departments' data included in the financial status report prepared for fiscal year 1988-89.

TABLE 3

**ACCURACY OF INFORMATION  
IN THE FINANCIAL STATUS REPORTS  
FISCAL YEAR 1988-89**

<u>Department</u>	<u>Reporting Basis</u>	<u>Reports Accurate and Reconciled to Accounting Records?</u>
Health and Welfare Agency	Accrual	No
State Department of Education	Cash	No
Department of Health Services	Cash	No
Department of Social Services	Accrual	No
Department of Mental Health	Cash	No
Department of Housing and Community Development	Cash	Yes

Note: See the text for details about those departments with deficiencies.

DESCRIPTIVE REPORTS

In addition to the financial status report, administering programs must submit other, predominantly descriptive reports. The primary descriptive reports are the annual application for federal funding and the annual end-of-year report, both of which the State submits to the federal government. Another descriptive report, a special report to the State Legislature, was submitted on February 13, 1990.

The annual application must contain assurances that the State will administer the grant in accordance with all federal regulations and will provide adequate fiscal and accounting controls over grant monies. The report must also provide both statistical and descriptive information concerning SLIAG program activities and related program costs. The end-of-year report must provide information on the status of each fiscal year's funds as of September 30 and must include a description of the methodology used to determine actual SLIAG reimbursements. The Budget Act of 1989, Section 23.50(q)(1), Chapter 93, Statutes of 1989, required the Health and Welfare Agency to submit a report to the Legislature on SLIAG claims and reimbursements. This special report, which was submitted to the Legislature on February 13, 1990, included information concerning policies for reviewing and paying claims, required documentation for claims, policies for recovering excess reimbursements from service providers, and the average length of time for paying claims.

The administering programs generally complied with the requirements for these descriptive reports, supplying information about each of the required topics. Descriptions in these reports were general. For more detailed descriptions of each program's policies for reviewing claims, collecting data, recovering overpayments, and monitoring subrecipients, see appendices B through G. For discussions of problems related to procedures described in the reports, see Chapters I and II and the first part of Chapter III of this report.

## CONCLUSION

The Health and Welfare Agency and four of the five departments did not accurately accumulate data for the federal financial status reports for the State Legalization Impact Assistance Grants. However, the administering programs have generally provided accurate descriptive information in the federal annual application and end-of-year reports and in the special report to the State Legislature, submitted February 13, 1990.

## RECOMMENDATIONS

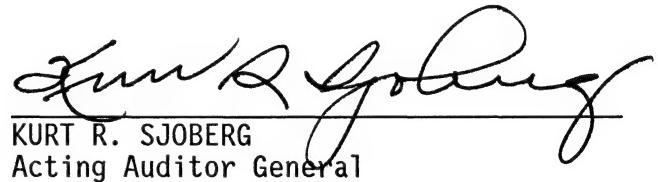
To comply with federal and state requirements for ensuring the accuracy of information in required reports, the Health and Welfare Agency and the departments participating in the State Legalization Impact Assistance Grants should take the following actions:

- The Health and Welfare Agency and the departments participating in the SLIAG should ensure that they prepare complete and accurate financial status reports. As part of their procedures, they should reconcile the amounts they report in their financial status reports with their departmental accounting records; and

- The Department of Social Services should ensure that each department reports on the same basis, either cash basis or accrual basis, for the financial status reports.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJÖBERG  
Acting Auditor General

Date:

Staff: Sylvia Hensley, CPA, Audit Manager  
Lois Benson, CPA  
Jatin Shah, CPA  
M. Michelle Krueger  
Candace Tucker  
Michael Smith  
Susan Robertson

APPENDIX A

SCHEDULE OF FISCAL ACTIVITY FOR PROGRAMS RECEIVING  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS

Listed below are the programs that have received reimbursements from the State Legalization Impact Assistance Grants, in decreasing order of fiscal activity. The fiscal data represent local assistance expenditures that are from the inception of the grant and that are recorded in the accounting records at the participating departments.

<u>Programs</u>	<u>Department</u>	<u>Amount Spent</u>	<u>Percent of Total Amount Spent</u>
Adult Education/School Age Youth			
Program (K-12)	Education	\$170,957,200	50.1%
Medically Indigent Services-Legalized			
Indigent Medical Assistance	Health Services	100,598,600	29.5
Medi-Cal	Health Services	30,735,700	9.0
Primary Care Clinics	Health Services	19,858,700	5.8
IRCA Subvention	Health Services	6,135,800	1.8
State Supplementary Program	Social Services	3,953,600	1.2
Sexually Transmitted Disease Control			
Program	Health Services	2,356,800	.7
Mental Health Outreach	Mental Health	2,238,600	.7
General Assistance	Social Services	1,125,100	.3
Family Planning	Health Services	1,044,000	.3
Mental Health Treatment	Mental Health	741,700	.2
Immunization Program	Health Services	374,400	.1
Tuberculosis/Leprosy Control	Health Services	301,900	.1
County Medical Services Program	Health Services	280,800	.1
California Children Services	Health Services	252,900	.1
Food Stamps for Special Agricultural			
Workers	Social Services	187,600	-
Aid to Families With Dependent Children-			
Family Group/Unemployed	Social Services	173,000	-
Aid to Families With Dependent			
Children-Foster Care	Social Services	166,700	-
Perinatal Services	Health Services	20,700	-
Adolescent Family Life	Health Services	5,700	-
Total		<u>\$341,509,500</u>	<u>100.0%</u>

## APPENDIX B

### SLIAG SERVICES AT THE HEALTH AND WELFARE AGENCY

**Nature of the Services:** The Health and Welfare Agency (agency) provides only administrative services, such as training and outreach services, and does not have responsibility for directly administering any program. The agency is the lead agency for the implementation of the Immigration Reform and Control Act of 1986 in California. The agency recommends funding allocations for the State Legalization Impact Assistance Grants (SLIAG) programs, resolves policy and regulatory issues, and ensures that SLIAG programs comply with federal regulations. The agency also contracts with nonprofit organizations to perform outreach services. These outreach services include publicizing the fact that it is important for newly legalized persons to identify themselves as such to service providers that receive SLIAG funds.

**Funding Mechanism:** The contractors bill the agency for costs incurred in performing the contract services. The agency initially pays the contractors and its own costs from the State's General Fund. These amounts are then reimbursed from the State Legalization Impact Assistance Fund. Any failure to identify SLIAG costs would result in the contractors' and the State's loss of potential revenue.

**Policy for Reviewing Claims for Appropriateness:** The agency reviews the invoices from contractors to verify that the assigned representative of the contractor has signed the invoice, that expenses are in accordance with the provisions of the approved contract, and that the invoice is mathematically accurate. The agency requires the contractors to submit monthly progress reports before it pays the invoice.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The agency could identify overpayments through annual independent audits. The contract provisions state that the contractors are responsible for paying the State the full amount of the State's liability to the federal government as a result of audit exceptions. Therefore, the agency would bill the contractor to recover overpayments. As of April 24, 1990, the agency had not identified any overpayments.

**Policy for Auditing and Monitoring Contractors:** The contract provisions require the nonprofit organizations with which the agency contracts to submit monthly progress reports. The progress

reports summarize services delivered during the month and progress made to complete assigned projects. The agency visits the contractors if it identifies problems with the services that contractors have provided or noncompliance with contract provisions. The contract provisions also require the contractors to receive an annual financial and compliance audit performed in accordance with generally accepted auditing standards for federally funded programs. See our discussion of the inadequacies of this system on page 31.

**Time Taken To Process Claims:** For the ten claims that we reviewed, the average processing time was 25 days.

## APPENDIX C

### SLIAG PROGRAMS AT THE STATE DEPARTMENT OF EDUCATION

#### A. Adult Education Program

**Nature of the Program:** The amnesty education office (office) administers the statewide Adult Education program for the State Legalization Impact Assistance Grants (SLIAG), in cooperation with the Chancellor's Office of the California Community Colleges. Under this program, local school districts, community colleges, and nonprofit community based organizations assist newly legalized persons to meet educational requirements needed to adjust from temporary to permanent residency status. Specifically, this program satisfies the provisions of the Immigration Reform and Control Act requiring newly legalized persons with temporary residency status either to demonstrate their proficiency in English and knowledge of the history and government of the United States or to be enrolled in approved English or citizenship courses.

**Funding Mechanism:** The State makes apportionments to providers directly from the State Legalization Impact Assistance Fund. The maximum average grant per newly legalized person participating in educational services cannot exceed \$500 per year. The providers render educational services and pay for the non-SLIAG costs of the program. Therefore, failure to identify SLIAG costs would result in the providers' loss of revenues.

**Policy for Reviewing Claims for Appropriateness:** The office receives claims for cash advances as well as for reimbursement of actual costs. For the claims for cash advances, the office ensures that the advance does not exceed 40 percent of the approved grant amount to the provider. For reimbursement claims, the office determines that the claim does not exceed the maximum allowable costs, that it is mathematically accurate, that it includes the unduplicated count of newly legalized persons served, and that the appropriate official has certified the validity of the amounts claimed. The office offsets the outstanding advances against reimbursement claims before it makes the payment.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments made to the providers or for refunding these amounts to the federal government out of state

monies. The office's procedure is to identify overpayments of SLIAG monies by comparing actual expenditures that each provider reports at year end with the amounts disbursed to the providers through cash advances and reimbursement claims. The office also plans to identify overpayments through the review of independent audits performed in accordance with the federal Office of Management and Budget, Circular A-128 or A-110, and through its own monitoring process. To recover an overpayment of SLIAG monies, the office bills the provider or offsets subsequent disbursements of the SLIAG.

**Policy for Auditing and Monitoring Subrecipients:** All the immediate subrecipients for the program are local school districts, community colleges, and nonprofit organizations, which are required to have an independent audit in accordance with the federal Office of Management and Budget, Circular A-128 or A-110. The office has also developed a monitoring document for consultants' use during visits to the subrecipients' sites. According to the manager of the office, as of April 13, 1990, the office was in the process of consolidating the results of these site visits for fiscal year 1989-90 and informing the providers about the results. The external audit unit is responsible for ensuring that the school districts and the nonprofit organizations adequately address the audit findings whereas the Fiscal and Program Standards Accountability Unit at the Chancellor's Office of the California Community Colleges is responsible for ensuring that the community colleges adequately address the audit findings. See our discussion of inadequacies in the receipt and review of A-110 audit reports on pages 30-31.

**Time Taken To Process Claims:** Although we reviewed 61 claims, only 48 had adequate documentation of the date received. For these claims, the average processing time was 39 days.

#### B. School Age Youth Program (K-12)

**Nature of the Program:** The office administers the statewide School Age Youth Program (K-12) for the SLIAG at the state level. Under this program, local school districts provide basic and supplemental educational services to newly legalized children under the age of 18 years enrolled in elementary and secondary schools who have attended U.S. schools for less than three complete academic years.

**Funding Mechanism:** The State makes apportionments to school districts directly from the State Legalization Impact Assistance Fund. For a school district to become eligible for SLIAG funding, the number of newly legalized children served by the school district must be at least 500, or 3 percent of the district enrollment. The maximum average grant per newly legalized child participating in educational services cannot exceed \$500 per year, reduced by the average reimbursement per student under the

**Emergency Immigrant Education Act.** The school districts render educational services and pay for the non-SLIAG costs of the program. Therefore, failure to identify SLIAG costs would result in the school districts' loss of revenues.

**Policy for Reviewing Claims for Appropriateness:** Towards the end of the fiscal year, the office receives claims for reimbursement based on actual costs. The office determines that the claim does not exceed the maximum allowable costs, that it is mathematically accurate, that it includes the unduplicated count of newly legalized children served, that it does not exceed the apportionment, and that the appropriate official has certified the validity of the amounts claimed. See the discussion of inadequate procedures for reviewing claims on pages 16-17.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments made to the school districts or for refunding these amounts to the federal government out of state monies. The State Department of Education plans to identify overpayments of SLIAG monies through the review of independent audits performed in accordance with the federal Office of Management and Budget, Circular A-128. To recover an overpayment of SLIAG monies, the department bills the school district or offsets subsequent disbursements of the SLIAG.

**Policy for Auditing and Monitoring Subrecipients:** All school districts are required to have an annual audit in accordance with the federal Office of Management and Budget, Circular A-128. The external audit unit is responsible for ensuring that the school districts adequately address the audit findings.

**Time Taken To Process Claims:** For the 15 claims that we reviewed, the average processing time was 62 days.

## APPENDIX D

### SLIAG PROGRAMS AT THE DEPARTMENT OF HEALTH SERVICES

#### I. Programs Active in 1989-90

##### A. Family Planning Program

**Nature of the Program:** The Family Planning Program is a state-sponsored public health program. Under this program, counties and nonprofit organizations contract with the State to provide services to the general public. Services provided include contraception, sterilization, infertility, and consultation services. Abortion services, however, are not provided.

**Funding Mechanism:** Subrecipient nonprofit organizations and counties provide services to the public and then submit invoices to the State on a fee-for-service basis. The State reimburses the subrecipients for the portion of these claims related to the State Legalization Impact Assistance Grants (SLIAG) directly from the State Legalization Impact Assistance Fund. Failure to identify SLIAG costs would result in the State paying for costs that should be funded by the federal government.

**Policy for Reviewing Claims for Appropriateness:** All subrecipients are reimbursed based on population ratios. The program unit reviews claims and verifies that they are properly approved and that payments are not made on amounts previously billed. The program unit then calculates the SLIAG portion of the claim using the appropriate population ratio.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments and refunding these amounts to the federal government. The department identifies overpayments through independent audits performed in accordance with the federal Office of Management and Budget, Circulars A-110 and A-128, and through audits performed by the audits and investigations unit of the Department of Health Services. The department also expects to identify overpayments if the interim population ratios used by subrecipients are larger than the final ratios

determined by the department. The department plans to offset any such overpayments from future payments to subrecipients or through an accounts receivable process. As of February 1990, the department had not identified any overpayments.

**Policy for Auditing and Monitoring Subrecipients:** All the immediate subrecipients of the program are counties and nonprofit organizations. Subrecipient counties are required to have an annual independent audit in accordance with the federal Office of Management and Budget, Circular A-128. Nonprofit organizations are required to have a biennial independent audit in accordance with Circular A-110. The department is responsible for ensuring that all subrecipients adequately address any audit finding.

**Time Taken To Process claims:** We reviewed 37 claims, and 36 had adequate documentation of the date received. For these claims, the average processing time was 24 days.

#### **B. Community-Based Perinatal Services Program and Adolescent Family Life Program**

**Nature of the Programs:** The Adolescent Family Life (AFL) and Community-Based Perinatal Services (CBPS) programs are public health programs administered through the department's Maternal and Child Health Branch. Under these programs, nonprofit subcontractors and local governments provide services directly to eligible aliens. The AFL program provides a variety of public health services, including case management and coordination services to pregnant or parenting teenagers, or both, while the CBPS program provides prenatal and postpartum medical care to eligible aliens.

**Funding Mechanism:** The AFL and CBPS programs are funded entirely by the state and federal governments. The State's portion of program costs that relate to eligible aliens represents costs reimbursable under the SLIAG. The State pays subrecipients for these costs directly from the State Legalization Impact Assistance Fund. Any failure to identify SLIAG costs results in the State's loss of federal reimbursements.

**Policy for Reviewing Claims for Appropriateness:** AFL and CBPS program costs are reimbursed using standard costs as a part of the actual claiming method. Subrecipients claim SLIAG costs by identifying the number of eligible aliens who received each of the services during a reporting period. The program staff in the Maternal and Child Health Branch determine the State's share of the standard costs and review each of these claims for mathematical accuracy and

authorized signatures. Claims containing errors are returned to the subrecipients for correction.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments made to the service providers and refunding these amounts to the federal government. The AFL and CBPS programs plan to identify overpayments of SLIAG monies through independent financial audits performed in accordance with the federal Office of Management and Budget, Circulars A-110 and A-128. The program's policy for recovering overpayments is to reduce subsequent claims by the amount overpaid. As of February 1990, the department did not identify any overpayments.

**Policy for Auditing and Monitoring Subrecipients:** All of the subrecipients participating in both programs are nonprofit organizations and local governments. The nonprofit organizations are required to have biennial independent audits in accordance with the federal Office of Management and Budget, Circular A-110. The local governments are required to have annual audits in accordance with Circular A-128. The program unit is responsible for reviewing these reports and ensuring that any findings are adequately addressed by the subrecipients. The first biennial audits are not due until after June 30, 1990. Nurses from the program unit and contract managers also perform informal site reviews of the subrecipients' clinics.

**Time Taken To Process Claims:** For the four claims that we reviewed for the CBPS program, the average processing time was 26 days. Although we reviewed five claims for the AFL program, only four had adequate documentation of the date received. For these claims, the average processing time was 37 days. Neither of these programs paid any claims in fiscal year 1988-89.

#### C. Immigration Reform and Control Act Subvention Program

**Nature of the Program:** The Immigration Reform and Control Act (IRCA) Subvention program acts as a supplemental funding source for all of the SLIAG-approved public health programs. Cities and counties that provide these public health programs have the option of claiming the SLIAG costs through individual program units or through the IRCA Subvention program.

**Funding Mechanism:** The State makes payments to cities and counties directly from the State Legalization Impact Assistance Fund. Cities and counties provide public health

services and pay for the non-SLIAG costs of the programs. Therefore, any failure to identify SLIAG costs would result in the cities' and counties' loss of potential revenue.

**Policy for Reviewing Claims for Appropriateness:** Subrecipients claim costs based on population ratios. The program unit reviews each claim and verifies that each is calculated using the proper ratio, is mathematically accurate, and is properly authorized.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments from the cities and counties and for refunding these amounts to the federal government. The program unit identifies overpayments through independent audits of the cities and counties or through any reductions in population ratios. The program's policy for recovering overpayments is to offset any amounts from future payments. As of February 1990, the program unit had identified only one SLIAG overpayment, and it followed appropriate procedures to recover this amount.

**Policy for Auditing and Monitoring Subrecipients:** All subrecipients of the program are cities and counties, which are required to have annual independent audits in accordance with the federal Office of Management and Budget, Circular A-128. The department is responsible for ensuring that the cities and counties adequately address the audit findings. As of February 1990, the program unit had not been informed of any findings related to the SLIAG. In addition, the department is in the process of developing a monitoring tool that has yet to be tested.

**Time Taken To Process Claims:** Although we reviewed 70 claims, only 18 had adequate documentation of the date received. For these claims, the average processing time was 63 days.

#### D. Sexually Transmitted Disease Control Program

**Nature of the Program:** The Sexually Transmitted Disease Control Program is a public health program. Under this program, counties provide services directly to eligible aliens. Services provided include diagnostic testing, treatment, referrals, and follow-ups.

**Funding Mechanism:** The State makes payments to counties directly from the State Legalization Impact Assistance Fund. Counties provide program services and pay for the non-SLIAG costs of the program. Therefore, any failure to identify SLIAG costs would result in the counties' loss of potential revenue.

**Policy for Reviewing Claims for Appropriateness:** For claims based on actual costs, the program determines whether the appropriate county official has certified the validity of the amounts claimed, whether the claim is mathematically correct, whether the county has provided a general methodology for summarizing costs, and whether the county has previously requested reimbursement for the same period. In addition, for claims based on population ratios, the program determines whether the counties have applied the appropriate ratio. See our discussion of the inadequacies in the program's review of claims on pages 14-16.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments made to the counties or for refunding these amounts to the federal government out of state monies. The program identifies overpayments for the program through independent audits of the counties or through any reductions in population ratios. As of February 1990, both overpayments and underpayments have been identified through an analysis of changing population ratios. To recover an overpayment of grant monies, the program offsets subsequent disbursements to the subrecipients.

**Policy for Auditing and Monitoring Subrecipients:** All the subrecipients for the program are counties, which are required to have annual independent audits in accordance with the federal Office of Management and Budget, Circular A-128. The audits and investigations unit is responsible for ensuring that the counties adequately address audit findings.

**Time Taken To Process Claims:** Although we reviewed 31 claims, only 6 had adequate documentation of the date received. For these claims, the average processing time was 70 days.

#### E. Immunization Program

**Nature of the Program:** The Immunization Program is a public health program. Under this program, vaccines are provided and shipped to counties at the State's expense. Counties incur the expense of administering the vaccines to local residents.

**Funding Mechanism:** The department's Immigration Reform and Control Act (IRCA) unit determines the reimbursable SLIAG amount for the Immunization Program by applying the

State's SLIAG population ratio against total projected vaccine expenditures. The Immunization Program pays for vaccine orders directly from the State Legalization Impact Assistance Fund up to the predetermined level. The expense incurred by the counties of administering vaccines is reimbursed under the IRCA Subvention program. See our discussion of the IRCA Subvention program on pages 57-58. Failure to identify SLIAG costs would result in the loss of revenue to the State.

**Policy for Reviewing Claims for Appropriateness:** Not applicable.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for refunding any overpayments to the federal government out of state monies. Overpayments of SLIAG monies would be recovered through a transfer from the State's General Fund to the State Legalization Impact Assistance Fund.

**Policy for Auditing and Monitoring Subrecipients:** The State is the recipient of SLIAG funds for this program, disbursing grant monies directly to providers of services, and is subject to A-128 audits. For this audit of the State, the federal Office of Management and Budget, Circular A-128, requires the federal government to determine the adequacy of completed audits and to follow up on reported deficiencies.

**Time Taken To Process Claims:** Not applicable.

#### **F. Tuberculosis/Leprosy Control Program**

**Nature of the Program:** The Tuberculosis/Leprosy Control program is a public health program. Under this program, cities and counties provide services directly to eligible aliens through city and county health departments. Services provided include testing, treatment, and follow-up examinations for tuberculosis and leprosy control.

**Funding Mechanism:** Local governments provide services to the general public, and the State reimburses them for their share of program costs. The local governments identify their share of program costs relating to eligible aliens as SLIAG costs on their claims. The State reimburses the counties' costs directly from the State Legalization Impact Assistance Fund. Therefore, any failure to identify SLIAG costs results in the local governments paying costs that should be funded by the federal government.

**Policy for Reviewing Claims for Appropriateness:** The program unit reviews each claim for mathematical accuracy and determines whether the costs are certified as valid by the appropriate county or city official. For claims based on population ratios, the program unit determines whether the appropriate ratio was used. For claims based on actual costs, the program unit determines whether the cities or counties identified the number of eligible aliens who received each type of service for which standard costs were charged.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments and refunding these amounts to the federal government. The program unit's procedure is to identify overpayments through independent audits of the cities and counties or through any reductions in the population ratios used in claiming SLIAG costs. The program's policy for recovering overpayments is to reduce subsequent claims by the amount overpaid. As of February 1990, no overpayments had been identified.

**Policy for Auditing and Monitoring Subrecipients:** All program subrecipients are either counties or cities, which are required to have annual independent audits in accordance with the federal Office of Management and Budget Circular A-128. The department is responsible for ensuring that the cities and counties adequately address the audit findings. In addition to these procedures, the program is developing a monitoring method for site reviews of SLIAG compliance. The method is currently in the testing stage.

**Time Taken To Process Claims:** Although we reviewed 11 claims, only 6 had adequate documentation of the date received. For these claims, the average processing time was 122 days.

#### G. Medi-Cal Program

**Nature of the Program:** The Medi-Cal program is a public assistance program. Under this program, a variety of health professionals and organizations, such as physicians, hospitals, and clinics, provide the same services for aliens eligible under the SLIAG as they do for recipients of services under the Medi-Cal program.

**Funding Mechanism:** Fifty percent of the charges for Medi-Cal services that are provided to aliens eligible under the SLIAG are funded through the federal Medical Assistance Program. The remaining 50 percent is initially funded through the State's General Fund in the form of a loan to

the Health Care Deposit Fund. The General Fund is later reimbursed from the State Legalization Impact Assistance Fund. Therefore, failure to identify SLIAG costs for this program results in the loss of potential revenue to the State.

**Policy for Reviewing Claims for Appropriateness:** Claims for Medi-Cal services provided to aliens eligible under the SLIAG are processed by a fiscal intermediary at the same time the Medical Assistance Program claims are processed. The SLIAG claims are separately identified by specific eligibility codes. The fiscal intermediary submits the SLIAG claims to the same computer system to which it submits the Medical Assistance Program claims. This system determines whether costs claimed are for approved services, whether standard rates are applied to approved units of service, and whether providers and recipients of services are eligible for reimbursement.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** Overpayments are identified through the department's audits of providers of medical services and through the department's review of payments to determine whether the State has paid for claims for which third parties, such as insurance companies, may be liable. The department bills providers for overpayments and establishes accounts receivable through the Recovery Branch.

**Policy for Auditing and Monitoring Subrecipients:** The State is the recipient of SLIAG funds for this program, directly disbursing grant monies to providers of services, and is subject to A-128 audits. For this audit of the State, the federal Office of Management and Budget, Circular A-128, requires the federal government to determine the adequacy of completed audits and to follow up on reported deficiencies.

**Time Taken To process claims:** The department estimates that the average time for paying claims from the providers of services for the program is 11.2 days.

#### **H. Medically Indigent Services-Legalized Indigent Medical Assistance Program**

**Nature of the Program:** The Medically Indigent Services-Legalized Indigent Medical Assistance program is a public assistance program designed to provide care to medically indigent adults who are not served under the Medi-Cal program. The program is operated through the counties, which determine program eligibility, benefits, and access to service providers.

**Funding Mechanism:** The State makes payments to counties directly from the State Legalization Impact Assistance Fund for identified SLIAG costs. Counties determine benefits and pay a percentage of the non-SLIAG costs of the program. Any failure to identify SLIAG costs would result in the counties' loss of potential revenue.

**Policy for Reviewing Claims for Appropriateness:** The program reimburses claims based on actual expenditures or through a statistically valid sample. The information submitted for both methods of reimbursement is similar. Claims are reviewed closely for total number of patient days, patient visits, and eligibility determinations, and this information is compared with statewide health care data for a reasonableness test. In addition, the program unit and an outside consultant review for reasonableness the sampling methodologies and the total amount of claims based on the statistically valid sample. The federal government has also reviewed certain statistical samples and had objections to them. Therefore, the program has only partially reimbursed counties using this method of claiming costs.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments made to the counties or for refunding these amounts to the federal government out of state monies. The program plans to identify overpayments through the county audits. Once an overpayment has been identified, the program will notify the county of the overpayment. The county must reimburse the State within 30 days, or the overpayment will be offset against subsequent claims. The county also has the right to appeal, at which point all reimbursement for SLIAG is stopped until the issue is resolved.

**Policy for Auditing and Monitoring Subrecipients:** All the immediate subrecipients for the program are counties, which are required to have annual independent audits in accordance with the federal Office of Management and Budget Circular A-128. The audits and investigations unit is responsible for ensuring that the counties adequately address audit findings.

**Time Taken To Process Claims:** Although we reviewed 57 claims, only 18 had adequate documentation of the date received. For these claims, the average processing time was 135 days.

## **I. Primary Care Clinics Program**

**Nature of the Program:** The Primary Care Clinics program is a public assistance program that provides funding to a statewide system of licensed primary care clinics by means of a grant program. These clinics provide services for primary medical care, health education, and outreach services to clients who meet a means test.

**Funding Mechanism:** The State pays the nonprofit primary care clinics directly from the State Legalization Impact Assistance Fund. Failure to identify SLIAG costs would result in the loss of revenue to the clinics and the State.

**Policy for Reviewing Claims for Appropriateness:** The primary care clinics, which have entered agreements with the department for the SLIAG program, submit invoices based on actual costs for a claim period to the program, detailing the units of service provided and the service rate. For all clinics, the rate of reimbursement for each unit of service is based on the approved rate in the SLIAG agreement. In addition, each SLIAG agreement sets a maximum reimbursement amount for the fiscal year. For each invoice submitted, the program unit determines that the invoice is signed, that the clinic is not claiming more funds than allowed, that the service rate is appropriate according to the agreement, and that the invoice for the claim period has not already been reimbursed.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The State is responsible for recovering any overpayments made to the clinics or for refunding these amounts to the federal government out of state monies. The program's procedure is to identify overpayments through the annual audits performed at the clinics and the monitoring reviews performed by the program. Although no excess reimbursements have been identified to date, the program has developed procedures to recover overpayments. To recover overpayments of SLIAG monies, the program plans to offset subsequent disbursements to the subrecipients.

**Policy for Auditing and Monitoring Subrecipients:** All subrecipients for this program are nonprofit agencies. Their agreements with the program require them to have annual audits and to submit the audit reports to the program. The program is currently updating this audit requirement to be an annual audit in accordance with the federal Office of Management and Budget, Circular A-133. In addition, the program has developed a monitoring method and

has performed on-site monitoring reviews in coordination with the department's audits and investigations unit. As of our review date, the program had not finalized the results of any on-site monitoring reviews.

**Time Taken To Process Claims:** Although we reviewed 46 claims, only 10 had adequate documentation of the date received. For these claims, the average processing time was 43.8 days. See our related discussion on page 21.

## **II. Programs Inactive in 1989-90**

### **A. County Medical Services Program**

**Nature of the Program:** The County Medical Services Program is a public assistance program that provides medical care services to medically indigent adults in small rural counties. The program services include inpatient, outpatient, emergency, diagnostic laboratory, physician, pharmaceutical, home health, ambulance transportation, physical therapy, and hemodialysis services. The participating counties contract with the department to administer the program.

**Status of the Program:** The County Medical Services Program charged approximately \$281,000 against the SLIAG during fiscal year 1988-89. As of February 28, 1990, the program had no charges against the SLIAG during fiscal year 1989-90. The department has delayed identifying additional charges against the SLIAG, pending the establishment of a computerized system that will compare the aliens' eligibility identification with records maintained by the federal Immigration and Naturalization Service. Costs of services provided to eligible aliens identified through this system would then be charged against the SLIAG.

### **B. California Children Services Program**

**Nature of the Program:** The California Children Services program is a public assistance program. The program provides case finding and specialized medical treatment services to severely physically handicapped children. Services are provided by physicians, hospitals, and other specialized medical providers, and these costs are reimbursed by the counties. The program provides SLIAG reimbursement directly to the counties for these allowable services.

**Status of the Program:** The California Children Services program charged approximately \$253,000 against the SLIAG during fiscal year 1988-89. As of February 28, 1990, the program had not charged the SLIAG during fiscal year

1989-90. The department has delayed processing any county claims pending the revision and approval from the department's IRCA unit of its program instructions regarding the claiming of expenditures on behalf of applicants. See our discussion of the inadequacies in the program's review of claims in fiscal year 1988-89 on page 14.

## APPENDIX E

### SLIAG PROGRAMS AT THE DEPARTMENT OF SOCIAL SERVICES

#### I. Programs Active in 1989-90

##### A. Aid to Families With Dependent Children Program

**Nature of the Program:** The Aid to Families With Dependent Children (AFDC) is a public assistance program. Needy children meeting basic eligibility requirements may receive assistance under the AFDC-Unemployed (AFDC-U) program if their parents are not fully employed. Under AFDC-U, children and their parents receive cash grants if the family's income is insufficient to meet its basic needs. AFDC-Family Group (AFDC-FG) is aid to families with dependent children in a family group in which the child is deprived because of the absence, incapacity, or death of either parent. The state share of nonfederal AFDC-U and AFDC-FG assistance costs is 89.2 percent and the county share is 10.8 percent. The State and counties share equally in the nonfederal administration costs. Under the State Legalization Impact Assistance Grants (SLIAG), the federal government reimburses the State and counties for the nonfederal portion of costs incurred for eligible legalized aliens.

**Funding Mechanism:** The State advances monies to counties each month for the AFDC payments and makes adjustments retroactively as counties submit actual claims. Counties identify SLIAG-eligible aliens among those who receive AFDC benefits and submit separate claims for those costs. Failure to identify costs incurred for aliens who are eligible under the SLIAG results in loss of revenue to both the State and the county.

**Policy for Reviewing Claims for Appropriateness:** Claims are based on actual costs. The assistance claims unit of the Department of Social Services (department) completes a claims review, which includes verifying that the appropriate county official has certified the validity of the amounts claimed, that the totals have been correctly carried forward to the claim form, and that the claim form is mathematically accurate. See our discussion of the inadequacy of the review of claims for several programs, including AFDC, on page 17.

**Policy for Data Collection:** The assistance claims unit sends approved county claims to the department's federal reporting unit (FRU). The FRU prepares internal spreadsheets

accumulating data for future claims for federal funds and for reporting expenditures on the financial status report. The FRU sends the claims to the department's accounting unit for preparation of claim schedules and recording in the CALSTARS accounting system. The FRU prepares the summarized financial status report for the SLIAG program by combining data from the Health and Welfare Agency and each participating department's financial status report, which is submitted to the FRU. The FRU also accumulates data on the department's expenditures for the year-end report. The department's Immigration Reform and Control Act (IRCA) unit prepares various report summaries, the annual application for federal funding, and SLIAG reports to the State Legislature.

**Policy for Recovering Overpayments:** The State is responsible for recovering from the counties any overpayments, which could be incorrectly claimed administrative or assistance costs, and for refunding these amounts to the federal government. The department's procedure is to identify overpayments for the AFDC program through independent A-128 audits of the counties, audits conducted by the State Controller's Office under an interagency agreement with the department, or program monitoring by the IRCA unit. As of February 1990, no overpayments had been identified. The program's policy for recovering overpayments is to reduce subsequent claims by the amount overpaid or by billing the counties.

**Policy for Auditing and Monitoring Subrecipients:** All the immediate subrecipients for the AFDC program are counties, which are required to have annual independent audits in accordance with the federal Office of Management and Budget, Circular A-128. The department is responsible for ensuring that subrecipients adequately address the audit findings. Also, the department has an interagency agreement with the State Controller's Office to conduct audits of administrative costs for department programs at the county level. Further, the IRCA unit planned to conduct monitoring reviews beginning in April 1990.

**Time Taken To Process Claims:** For the 20 claims that we reviewed, the average processing time was 121 days.

#### B. AFDC-Foster Care Program

**Nature of the Program:** The AFDC-Foster Care program is a public assistance program. Children who are in need of protection and care by persons other than their parents and who require 24-hour out-of-home care in a foster family home or group home may receive benefits under the AFDC-Foster Care program. Counties administer both a federal and a state program, with about half of the entire caseload eligible for

federal funds. The federal government provides 50 percent of the payment for eligible children. The State provides 95 percent of the nonfederal share while counties assume the remainder. Under the SLIAG, the state and county shares of costs incurred for eligible legalized aliens for both programs are reimbursable.

**Funding Mechanism:** See our discussion of the funding mechanism for the AFDC program on page 67.

**Policy for Reviewing Claims for Appropriateness:** See our discussion of the AFDC program policy for reviewing claims for appropriateness on page 67.

**Policy for Data Collection:** See our discussion of the AFDC program policy for data collection on pages 67-68.

**Policy for Recovering Overpayments:** See our discussion of the AFDC program policy for recovering overpayments on page 68

**Policy for Auditing and Monitoring Subrecipients:** See our discussion of the AFDC program policy for monitoring subrecipients on page 68.

**Time Taken To Process Claims:** For the 18 claims that we reviewed, the average processing time was 131 days.

#### C. General Assistance Program

**Nature of the Program:** County General Assistance programs provide cash grant assistance to needy persons who are not eligible for other cash assistance programs such as AFDC. County welfare departments administer General Assistance programs in accordance with each county's regulations, standards, and procedures as set by the County Board of Supervisors. The County Board of Supervisors sets payment levels although some counties have adopted AFDC payment levels. Counties fully fund the program's costs under the SLIAG for costs incurred for eligible legalized aliens.

**Funding Mechanism:** Upon the counties' submission of the appropriate claim form, the State reimburses the counties directly from the State Legalization Impact Assistance Fund. Failure on the part of the counties to identify costs incurred for aliens who are eligible under the SLIAG results in loss of revenue to the counties.

**Policy for Reviewing Claims for Appropriateness:** See our discussion of the AFDC program policy for reviewing claims for appropriateness on page 67. Also see our discussion of the claims documentation on page 15.

**Policy for Data Collection:** See our discussion of the AFDC program policy for data collection on pages 67-68.

**Policy for Recovering Overpayments:** See our discussion of the AFDC program policy for recovering overpayments on page 68.

**Policy for Auditing and Monitoring Subrecipients:** See our discussion of the AFDC program policy for monitoring subrecipients on page 68.

**Time Taken To Process Claims:** For the ten claims that we reviewed, the average processing time was 99 days.

#### **D. Supplemental Security Income/State Supplementary Program**

**Nature of the Program:** The Supplemental Security Income/State Supplementary Program (SSI/SSP) is a public assistance program. The SSI/SSP provides cash grant assistance to aged, blind, or disabled persons who meet the program's income and resource requirements. The SSI is the federal government's share of these payments, and the SSP is the state government's share. The SSI/SSP is administered by the federal Social Security Administration, which determines eligibility, computes grants, and disburses the combined monthly payments to beneficiaries. California supplements the SSI payment with the SSP payment. The federal Social Security Administration includes the SSP payment in beneficiaries' monthly checks.

**Funding Mechanism:** The State's General Fund advances monies to the federal government each month, and the federal government disburses the benefit payments. The federal government supplies the State with a computer tape with details about actual payments. The tape serves as a monthly invoice to the State. The State determines payment amounts for eligible legalized aliens from this tape, requests funds, and reimburses the State's General Fund based on these amounts. Failure to identify costs incurred for the SLIAG would result in the loss of revenue for the State.

**Policy for Reviewing Claims for Appropriateness:** Currently the department has no quality control system to review the federal government's monthly invoice, which includes amounts to charge the SLIAG and other programs in the department. The department's adult program management bureau uses a state computer program to extract data from the federal computer tape to determine the SSP payments to eligible legalized aliens.

**Policy for Data Collection:** See our discussion of the AFDC program policy for data collection on pages 67-68.

**Policy for Recovering Overpayments:** The State is responsible for offsetting any overpayments to the federal government. The program's policy for recovering overpayments is to reduce subsequent claims by the State. As of May 10, 1990, no overpayment has been identified.

**Policy for Auditing and Monitoring Subrecipients:** The State is the recipient of SLIAG funds for this program, directly disbursing grant monies to beneficiaries, and is subject to A-128 audits. For this audit of the State, the federal Office of Management and Budget, Circular A-128 requires the federal government to determine the adequacy of completed audits and to follow up on reported deficiencies.

**Time Taken To Process Claims:** Not applicable.

## **II. Program With Administrative Costs Only**

### **A. Food Stamps for Special Agricultural Workers Program**

**Nature of the Program:** The food stamp program is designed to provide improved levels of nutrition among low-income households by offering eligible households food stamps at no cost. Under the Immigration Reform and Control Act, of eligible aliens, only special agricultural workers are eligible for food stamps, and the federal government fully funds the cost of the food stamps. However, the State's and counties' share of administrative costs associated with eligible aliens is federally reimbursable under the SLIAG.

**Funding Mechanism:** The counties submit quarterly claims for administrative costs for this program. Failure on the part of the counties to identify qualifying costs incurred for eligible legalized aliens results in the loss of revenue to the State and counties.

**Policy for Reviewing Claims for Appropriateness:** The department's claims audit unit receives and reviews the quarterly administrative claims from the counties. The unit determines the mathematical accuracy of each claim and determines the appropriateness of each one by reviewing detailed time-study information submitted with the county claims. These time studies support the costs allocated to the SLIAG, and the unit compares the allocation with the percentages to ensure the accuracy of the costs reported.

**Policy for Data Collection:** See our discussion of the AFDC program policy for data collection on pages 67-68.

**Policy for Recovering Overpayments:** See our discussion of the AFDC program policy for recovering overpayments on page 68.

**Policy for Auditing and Monitoring Subrecipients:** See our discussion of the AFDC program policy for monitoring subrecipients on page 68.

**Time Taken To Process Claims:** For the ten claims that we reviewed, the average processing time was 124 days.

**SLIAG PROGRAMS AT THE DEPARTMENT OF MENTAL HEALTH**

**A. Mental Health Treatment Program**

**Nature of the Program:** The Mental Health Treatment program is a public assistance program. Under this program, counties contract with mental health organizations to provide treatment services directly to eligible aliens. These services include 24-hour residential treatment, rehabilitation services, and individual and group counseling.

**Funding Mechanism:** The mental health organizations that counties contract with bill the counties for treatment services provided to eligible aliens. The counties pay the mental health organizations from county resources and then bill the Department of Mental Health (department) to reimburse their costs with State Legalization Impact Assistance Grants (SLIAG) monies. Therefore, any failure to identify SLIAG costs would result in the counties' loss of potential revenue.

**Policy for Reviewing Claims for Appropriateness:** Reimbursement for direct treatment costs to eligible aliens is based on actual costs. The program unit reviews claims to verify that a county official has signed the claims, that amounts on supporting schedules are carried forward to summary schedules, and that the county is not requesting reimbursement for costs previously reimbursed. One county has costs reimbursed based on the statistical sampling methodology. See our discussion of the inadequacies in the unit's review of claims on page 17.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The department's procedure is to identify overpayments of SLIAG monies by comparing actual expenditures that each county reports at the end of the year with the amounts disbursed to the county. Overpayments can also be identified through independent audits performed in accordance with the federal Office of Management and Budget, Circular A-128. To recover an overpayment of SLIAG monies, the department offsets future disbursements to the subrecipients. See our discussion of inefficient procedures for identifying and recovering overpayments on page 34.

**Policy for Auditing and Monitoring Subrecipients:** All the immediate subrecipients for the mental health treatment program are counties, which are required to have an annual independent audit in accordance with the federal Office of Management and Budget, Circular A-128. The department is responsible for ensuring that the counties adequately address the audit findings. According to the chief of the financial management branch, the department has plans to implement additional monitoring procedures, but, as of April 12, 1990, had not finalized a monitoring method or performed any monitoring procedures.

**Time Taken To Process Claims:** For the 38 claims that we reviewed, the average processing time was approximately 18.5 days.

#### B. Mental Health Outreach Services Program

**Nature of the Program:** The Mental Health Outreach program is a public health program. Under this program, the counties perform outreach services for the community or contract with mental health organizations to provide these services. Outreach services include training mental health employees, informing the community of the available mental health programs, and counseling individuals and families who are not regular mental health patients.

**Funding Mechanism:** The mental health organizations that counties contract with bill the counties for outreach services performed. The counties pay the mental health organizations from county resources. The counties then identify the amount of outreach costs reimbursable through the SLIAG and bill the department to reimburse their SLIAG-related costs with SLIAG monies. Therefore, any failure to identify SLIAG costs would result in the counties' loss of potential revenue.

**Policy for Reviewing Claims for Appropriateness:** Reimbursement for outreach costs is based on population ratios; see our discussion of this procedure on page 11. The program unit reviews claims to verify that a county official has signed the claims, that amounts on supporting schedules are carried forward to summary schedules, and that the county is not requesting reimbursement for costs previously reimbursed. One county has costs reimbursed based on the statistical sampling methodology. See our discussion of the inadequacies in the unit's review of claims on page 17.

**Policy for Data Collection:** See our description of general policy on pages 40-41.

**Policy for Recovering Overpayments:** The department's procedure is to identify overpayments of SLIAG monies by comparing actual expenditures that each county reports at the end of the year with the amounts disbursed to the county. Overpayments can also be identified through independent audits performed in accordance with the federal Office of Management and Budget, Circular A-128. To

recover an overpayment of SLIAG monies, the department offsets future disbursements to the subrecipients. See our discussion of inefficient procedures for identifying and recovering overpayments on page 34.

**Policy for Auditing and Monitoring Subrecipients:** All the immediate subrecipients for the mental outreach program are counties, which are required to have annual independent audits in accordance with the federal Office of Management and Budget, Circular A-128. The department is responsible for ensuring that the counties adequately address the audit findings. The department is planning to implement additional monitoring procedures, but, as of April 25, 1990, had not finalized a monitoring method or performed any monitoring procedures.

**Time Taken To Process Claims:** The reimbursements for the Mental Health Treatment program and the Mental Health Outreach program are processed on the same claim. See Time Taken To Process Claims on page 74.

## APPENDIX G

### **SLIAG PROGRAMS AT THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

The Department of Housing and Community Development has identified seven programs that are potentially eligible to receive State Legalization Impact Assistance Grants (SLIAG) funds. However, these programs did not claim program costs because, until April 1990, the federal Department of Health and Human Services had not approved any of these programs, and therefore, none of the program costs have been reimbursed. SLIAG claims would be based on costs related to the number of eligible aliens served. The only department claims that the federal government has reimbursed relate to the department's administrative expenses. Each of the potentially eligible programs is described below.

#### **A. California Homeownership Assistance Program**

The California Homeownership Assistance Program provides 30-year equity sharing home loans to low-income individuals at an interest rate of 4 percent. The program provides up to 49 percent of the purchase price of a home in the form of a mortgage participation loan with an institutional lender.

#### **B. California Housing Rehabilitation Program**

The California Housing Rehabilitation Program provides 3 percent interest deferred payment loans to rehabilitate low-income residences. Recipients can be the owner occupants of the residence or the rental property owners and must use the money to rehabilitate substandard single or multiple family housing units.

#### **C. California Self-Help Housing Program**

The California Self-Help Housing Program funds nonprofit organizations to assist groups of households to build their own homes. The program pays for recruitment of participants, loan packaging, construction supervision, and pre-occupancy counseling. Each participating household is required to work a minimum number of hours on its own home and the homes of other members of its group.

#### **D. Farmworker Housing Grant Program**

The Farmworker Housing Grant Program consists of two components. Under the homeownership portion of this program, a low-income individual receives a grant that reduces the principal amount of the mortgage on the individual's home. This grant stays in effect for 20 years unless the recipient defaults on the terms of the grant or sells the unit to a noneligible purchaser during the term of the grant agreement.

Under the rental component of this program, funds are granted to nonprofit sponsors of rental housing. The State obtains a 40-year lien on the property to ensure that the property is available to low-income farmworkers at reduced rents. At the end of the 40-year period, the lien can be relinquished.

#### **E. Office of Migrant Services**

The Office of Migrant Services provides local assistance funds to contractors for the operation and maintenance of 26 migrant housing centers. These centers provide affordable housing to aliens eligible under the SLIAG, provided they earn 50 percent of their income from farm labor and provided their household is migratory.

#### **F. Rental Housing Construction Program**

The Rental Housing Construction Program provides one-time low-interest loans for the construction of new low-income rental housing. In return for this special financing, the property owners agree to provide affordable housing at reduced rents for a period of 40 years or longer.

#### **G. Emergency Shelter Program**

The Emergency Shelter Program provides grants to local governments and nonprofit organizations based on a Notice of Funding Available process. The grantees use this funding to acquire, expand, or rehabilitate homeless shelters and equipment.



HEALTH and WELFARE AGENCY  
OFFICE OF THE SECRETARY  
1600 NINTH STREET, ROOM 460  
Sacramento, California 95814  
(916) 445-6951

May 24, 1990

Mr. Kurt R. Sjoberg  
Acting Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Sjoberg:

This letter transmits the Health and Welfare Agency's (HWA's) responses to the Office of the Auditor General's Draft Audit Report F-944 entitled "A Review of the State's Administration of the State Legalization Impact Assistance Grant".

Attached are responses to the specific recommendations of the above named report for the HWA and all other impacted departments including a courtesy copy of the Department of Education's (DOE's) response. The DOE will submit their official response to the audit findings directly to your office as a separate package.

I would like to extend my appreciation to your staff for the many opportunities provided us to furnish information and comments on their findings during the course of this audit.

If you have any questions regarding our comments, please contact me at 445-1722 or Mr. Mark Helmar, Assistant Secretary Program and Fiscal Affairs, at 445-0196.

Sincerely,

*Catherine Lamachio for*

CLIFFORD L. ALLENBY  
Secretary

Attachments

**HEALTH AND WELFARE AGENCY**

Response to Auditor General F-944 Draft for Health and Welfare Agency Findings

Finding, (Page 31), and Recommendation (Page 36)

The Health and Welfare Agency does not have an effective system in place to receive and review the financial and compliance audits from nonprofit subrecipients for outreach services. The Health and Welfare Agency should ensure such receipt.

Response

The Health and Welfare Agency concurs. The Agency has since requested contractors to submit the dates of their respective fiscal years. Upon receipt, the Agency will compile the information, notify each provider of its audit date and track receipt of the audits.

Finding, (Page 41) and Recommendation (Page 45)

The Health and Welfare Agency did not reconcile the amounts reported in the financial status reports with their departmental accounting records. Such reconciliation should be part of the procedure.

Response

The Health and Welfare Agency has taken steps, through the Office of Statewide Health Planning and Development, to implement the Auditor General's recommendation and ensure that the amounts reported in the financial status reports agree with departmental accounting records.

DEPARTMENT OF HEALTH SERVICES

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGISLATION IMPACT ASSISTANCE GRANTS  
(CALIFORNIA CHILDREN'S SERVICES PROGRAM)

FINDING: (Page 14)

During fiscal year 1988/89, the California Children Services program in the Department of Health Services claimed full reimbursement from the SLIAG for public assistance costs incurred for aliens who had only applied for, but not yet been granted, eligible status.

RECOMMENDATION: (Page 22)

The California Children Services program in the Department of Health Services should finalize a revised claim form that requires information on the eligibility status of aliens and should change its procedures to ensure that it claims reimbursement only for the allowable portion of the costs incurred for applicants. Moreover, the program should recover overpayments from the counties and return these amounts to the federal government.

RESPONSE:

The California Children Services (CCS) program concurs with the finding that they authorized payments for categories of recipients not allowed under the SLIAG program. Specifically, during fiscal year 1988-89, the California Children Services program claimed full reimbursement from SLIAG for public assistance costs incurred for aliens who had only applied for, but not received, eligible status as required. This authorization of unallowable payments resulted in an overpayment of claims in Fiscal Year 1988/89.

STATEMENT OF CORRECTIVE ACTION:

The California Children Services program has prepared and distributed guidelines and billing procedures, including a revised claim form, to all county CCS programs. The revised claim form clearly defines the required and proper documentation of the eligibility status of aliens to ensure that reimbursements are made only for the allowable portion of the incurred costs for applicants.

Overpayments made in Fiscal Year 1988/89 have been identified and will be recovered by reducing the overpayment from the appropriate counties' next claim for reimbursement.

TIME FRAME FOR COMPLETING CORRECTIVE ACTION:

The revised claim form, together with instructions for completing, was sent to all county CCS programs on May 11, 1990. The counties will begin to use this revised claim form immediately.

The overpayments will be deducted from the appropriate counties' next claim for reimbursement.

REPORT BY THE  
OFFICE OF AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS  
(SEXUALLY TRANSMITTED DISEASE CONTROL PROGRAM)

FINDING: (Page 14)

The Sexually Transmitted Disease Program inappropriately paid for treatment services rendered to the sex partners of aliens eligible under the grant.

RECOMMENDATION: (Page 23)

The Sexually Transmitted Disease Control Program in the Department of Health Services should change its procedure to ensure that it reimburses only the appropriate costs for the sex partners of aliens eligible under the SLIAG.

RESPONSE:

The Sexually Transmitted Disease (STD) Control Program was under the impression that cost for treatment for sexual partners of eligible aliens was an allowable cost. During the initial stages of the IRCA program, the issue of reimbursing local jurisdictions for treating sexual partners was discussed in several meetings with the IRCA Unit. Allowability of treatment cost for sexual partners was never disapproved. The program also developed a claim form (Attachment A) which was approved by the IRCA Unit for distribution to local jurisdictions claiming actual costs. However, only eight jurisdictions claimed cost for treatment of sexual partners.

CORRECTIVE ACTION:

The STD Control Program will notify the eight jurisdictions in question that treatment for sexual partners to eligible aliens is not an allowable cost. The program will request these eight jurisdictions to submit amended claims showing the appropriate adjustments. The program will recover identified overpayments by offsetting subsequent claims.

TIME FRAME FOR COMPLETING CORRECTIVE ACTION:

By June 1990 the eight counties will be notified and recoupment of overpayments is expected to be completed by September 1990 by means of offsetting future claims.

**DUE DATE: 11/15/88**

**Attachment A**

**IRCA PROVISIONAL CLAIM FOR STD** Jurisdiction \_\_\_\_\_

Date Submitted \_\_\_\_\_ Name of Person Submitting Claim \_\_\_\_\_

Phone No: \_\_\_\_\_ Signature \_\_\_\_\_

PERIOD: July 1, 1987 through September 30, 1988

CHECK QUARTER TO WHICH CLAIM APPLIES	<input type="checkbox"/> 7/1/87-9/30/87	<input type="checkbox"/> 4/1/88-6/30/88
	<input type="checkbox"/> 10/1/87-12/31/87	<input type="checkbox"/> 7/1/88-9/30/88
	<input type="checkbox"/> 1/1/88-3/31/88	

Sent STD Claims to:  
IRCA STD Claiming  
c/o Tuberculosis Control Program Office  
714/744 P Street  
P.O. Box 942732  
Sacramento, CA 94234-7320

	Number Of Pts.	Cost <sup>1</sup> Per Unit	Total
--	-------------------	-------------------------------	-------

**SERVICES TO IRCA PATIENTS:**

1. With reactive test results for STD needing evaluation only: \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_
2. Diagnosed with STD requiring treatment: \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_

**SERVICES TO SEX PARTNERS OF IRCA PATIENTS:**

1. Examined only: \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_
  2. Examined and preventively treated: \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_
  3. Diagnosed with STD and treated: \_\_\_\_\_ x \$ \_\_\_\_\_ = \$ \_\_\_\_\_
- TOTAL      \$ \_\_\_\_\_

Please briefly describe on a separate sheet(s) how you derived the numbers served and the methodology used to determine the unit cost. If the same approaches and methodology were used for all quarters only one description is necessary. This form has been designed for method one (see pg. 2 of memo). If method 2,3 or 4 is used, describe in detail on separate sheet(s).

**PROGRAM PLANNING, DEVELOPMENT AND IMPLEMENTATION:**

Claim here for costs incurred for local planning, development and implementation of STD IRCA program policy, administration, coordination, local training, management of information systems, management of funds and liaison with other programs. Describe on separate sheet(s) positions, duties and operating expenses and the methods used to arrive at the cost figures. Do not include any items already accounted for in cost per unit calculations.

TOTAL      \$ \_\_\_\_\_

<sup>1</sup>Include administrative and overhead cost.

REPORT BY THE  
OFFICE OF AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS  
(SEXUALLY TRANSMITTED DISEASE CONTROL PROGRAM)

FINDING: (Page 15)

The Sexually Transmitted Disease Control Program in the Department of Health Services did not always require sufficient documentation to support the reasonableness of the amounts that participating counties claimed as their actual costs.

RECOMMENDATION: (Page 23)

The Sexually Transmitted Disease Control Program should require all counties claiming costs on an actual basis to provide adequate documentation of those activities that affect the amount charged.

RESPONSE:

Although the Auditor General found nine of fourteen invoices without adequate documentation, all nine invoices were from seven local jurisdictions. During fiscal years 1987-88 and 1988-89, thirty-one health jurisdictions submitted claims for SLIAG. Of these, sixteen submitted claims based on actual costs and fifteen submitted claims based on population ratios. Starting in FY 1989-90, only two of thirty-one jurisdictions have continued to submit SLIAG claims based on actual cost; the rest are claiming based on population ratio.

CORRECTIVE ACTION:

The STD Control Program has sent letters to pertinent counties informing them that, in accordance with the Auditor General's audit, additional fiscal documentation is necessary, and that subsequent claims will not be paid until this information is received by the STD Control Program.

TIME FRAME FOR COMPLETING CORRECTIVE ACTION:

The above mentioned letters were sent to the counties in April 1990. It is anticipated that this matter will be resolved by July 1990 with the receipt of necessary documentation to substantiate the claims in questions.

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS  
(PRIMARY CARE CLINICS PROGRAM)

FINDING: (Page 22)

To comply with federal and state requirements for ensuring that claimed costs are reasonable and allowable and are processed appropriately, the administering programs for the State Legalization Impact Assistance Grants should take the following actions.

RECOMMENDATION: (Page 23)

The Primary Care Clinics program should promptly enter into agreements to allow prompt reimbursement to subrecipients for services rendered.

RESPONSE:

We concur with this recommendation.

Corrective Action Taken:

The program has implemented multi-year grant agreements with subrecipients for FY(s) 1988-91 and this method will minimize future processing and reimbursement problems.

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS  
(DEPARTMENT OF HEALTH SERVICES-GENERAL)

FINDING: (Page 30)

At the time of our reviews, none of the administering programs had fully designed or implemented its procedures for receiving and reviewing A-110 or A-133 audits of nonprofit subrecipients. These audit reports, required at least biennially, will be due no later than the first half of fiscal year 1990-91 for subrecipients that have received funds during the last two years. At that time, these programs will be required to have in place a system of notifying all nonprofit subrecipients of the requirement to have an A-110 or A-133 audit, of monitoring the receipt and review of the audit reports, and of following up on deficiencies identified in the audits.

RECOMMENDATION: (Page 36)

All programs should fully implement the appropriate monitoring procedures that they have planned to ensure that subrecipients of SLIAG monies are adequately monitored.

RESPONSE:

We concur with this recommendation.

CORRECTIVE ACTION TO BE TAKEN:

The Department's IRCA Unit will work with SLIAG programs which have nonprofit subrecipients to assure that all such recipients are informed of the A-110 and A-133 audit requirement. The IRCA Unit will develop uniform procedures for these SLIAG programs to assure consistent monitoring of the receipt and review of the audit reports, and of follow up on deficiencies identified in the audits.

TIMEFRAME FOR CORRECTIVE ACTION

DHS SLIAG programs will assure that all nonprofit SLIAG subrecipients are immediately advised of the A-110/A133 audit requirement. Uniform monitoring and follow up procedures will be promulgated to the SLIAG programs prior to June 30, 1990.

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS  
(PRIMARY CARE CLINICS PROGRAM)

Finding, (Page 32)

The Primary Care Clinic Program in the Department of Health Services has designed a monitoring system but, as of our review, had not issued any monitoring reports.

Recommendation, (Page 36)

All programs should fully implement the appropriate monitoring procedures that they have planned to ensure that subrecipients of SLIAG monies are adequately monitored.

Response:

We concur with this recommendation.

Corrective Action Taken:

Corrective action taken to date is as follows:

- o The Primary Care Clinic (PCC) program has implemented a system review process, training program, and protocol to assess the effectiveness of subrecipient clinic operations. We have established a joint effort with Audits and Investigations staff to conduct these reviews for all primary care clinic grantees. To date, we have performed 55 systems reviews since February 1, 1990.
- o We have issued a policy bulletin which specifies the test of fitness and criteria required as part of the annual single audit requirement for subrecipients.
- o We have also now required that all grantees provide detailed documentation to substantiate IRCA eligibility, that the service was provided before the expiration date of acceptable documentation and this information is attached to all invoices for payment for all IRCA clients served and billed.

Timeframe for Corrective Action

We have scheduled systems reviews for all PCC grantees before June 30, 1990. It is our expectation to complete a 100% review of all PCCs before June 30, 1990. It is anticipated that further corrective action, follow-up and technical assistance will be required beyond FY 1989-90.

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGALIZATION IMPACT ASSISTANCE GRANTS  
(DEPARTMENT OF HEALTH SERVICES-GENERAL)

FINDING: (Page 32)

The federal Office of Management and Budget, Circular A-102 Revised, which applies to all recipients of federal monies, requires the state or local governments to determine whether subrecipients spent federal assistance funds in accordance with applicable laws and regulations.

RECOMMENDATION: (Page 36)

All programs should fully implement the appropriate monitoring procedures that they have planned to ensure that subrecipients of SLIAG monies are adequately monitored.

RESPONSE:

We concur with this recommendation.

CORRECTIVE ACTION TO BE TAKEN:

The IRCA Unit, acting on behalf of Department of Health Services (DHS) SLIAG Programs, is developing a program monitoring tool. In state fiscal year 1990-91, the IRCA unit will put together a monitoring plan in conjunction with programs for review of program activities to ensure that all funds which are drawdown are reasonable and appropriate.

TIMEFRAME FOR CORRECTIVE ACTION:

As stated above, the IRCA unit will work with DHS SLIAG programs to develop a program monitoring tool that can be used to monitor program activities and ensure compliance with SLIAG regulations. Uniform monitoring and follow up procedures will be promulgated to the SLIAG programs prior to June 30, 1990.

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL

A REVIEW OF THE STATE'S ADMINISTRATION OF  
THE STATE LEGISLATION IMPACT ASSISTANCE GRANTS  
(DEPARTMENT OF HEALTH SERVICES - ACCOUNTING)

FINDING: (Page 41)

The Department of Health Services did not reconcile the amounts they reported in the financial status reports with their departmental accounting records.

RECOMMENDATION: (Page 45)

The Health and Welfare Agency and the administering program for the SLIAG should ensure that they prepare complete and accurate financial status reports. As part of their procedures, they should reconcile the amounts they report in their financial status reports with departmental accounting records.

RESPONSE:

We concur with the findings in Part III, A Review of Data Collection and Reporting Procedures, that indicated the Department of Health Services did not reconcile the amounts reported for the financial status report with the Departmental accounting records.

STATEMENT OF CORRECTIVE ACTION:

The Federal Reporting and Reimbursement Unit is now reconciling the draw worksheet (basis for preparing the financial status report) to the Departmental accounting records and the State Controller's Office records.

TIME FRAME FOR COMPLETING CORRECTIVE ACTION:

The three way reconciliation mentioned above is completed for March 1990 activity with April in progress. It will continue to be completed on a monthly basis.

**DEPARTMENT OF MENTAL HEALTH**

AGO Finding (page #17)

The DMH did not correct several minor mathematical errors on claims which resulted in over/under payments of some claims.

DMH Response

The DMH agrees with the AGO's finding. However, these mathematical errors were made in the beginning of our program, only and at a time when our procedures to spot and correct errors were being established.

A claim is reviewed at three (3) different levels for errors within the IRCA Unit and reviewed again in the accounting section. As a result our error rate is nil or nonexisting within recent months. This program is in effect at present.

AGO Finding (page #37)

The DMH should establish procedures to identify overpayments to subrecipients accurately and recover overpayments efficiently.

DMH Response

The DMH IRCA Unit reconciles any adjustments in claims payments and/or rates within the current year as reported in our year-end reports. In addition, the IRCA year-end reports are cross referenced with the County Allocation CR/DC Section reports to ensure their accuracy. This procedure is now being done.

AGO Finding (page #39)

The DMH agrees with the AGO that we did not reconcile the amounts that were reported on the financial status reports to our accounting records.

DMH Response

The Accounting Section was not consistent in using the Calstars reports. We have since started using the same Calstars reports for accuracy in completing the financial status reports.

AGO Finding (page #41)

The DMH did not record an entry resulting in an understatement of expenditures of approximately \$82,000. The Department also misclassified approximately \$13,000 in public assistance expenditures as public health assistance expenditures.

DMH Response

The funds were incorrectly reported only during the reclassing of expenditures of public health and public assistance. The overall net expenditures were correct. We have since reconciled our Calstars report and corrected this.

**DEPARTMENT OF SOCIAL SERVICES**

DEPARTMENT OF SOCIAL SERVICES (DSS) RESPONSE

Following are DSS comments in response to specific recommendations in the Office of the Auditor General's (OAG) draft audit report P-944 entitled "Review of the State's Administration of the State Legalization Impact Assistance Grants (SLIAG)/May 1990" which pertain to the DSS.

CHAPTER I.

A REVIEW OF CLAIMS PROCESSING.

Insufficient Documentation for Claimed Costs

OAG Recommendation: "The General Assistance program in the Department of Social Services should require all Counties claiming costs on an actual basis to provide adequate documentation of those activities that affect the amounts charged;"  
(Page 23)

DSS Response: The DSS believes it would be excessively burdensome to require Counties to submit substantiating documentation for all activities that affect the amounts charged. However, effective immediately, Counties will be requested to justify costs that appear unusual.

Insufficient Review of Documentation for Claimed Costs

OAG Recommendation: "Several programs in the Department of Social Services should develop procedures for reviewing claims that are adequate to determine the reasonableness and allowability of costs claimed."  
(Page 23)

DSS Response: The DSS currently performs an adequate, though not exhaustive, desk audit review of County SLIAG claims. Given the relatively small amounts claimed for SLIAG reimbursement and the overall accuracy of County-reported data, the DSS has not felt that a more detailed review would be warranted and cost beneficial. It should be

noted that the four mathematical errors detected in the OAG review amounted to less than \$500 and represented only three-tenths of one percent (.3%) of the total amount included on the reviewed claims. The two cases of questionable costs were determined to be allowable. Nevertheless, the DSS will immediately review the desk audit process to determine if additional procedures are needed to ensure greater accuracy.

## CHAPTER II.

### A REVIEW OF THE PROCEDURES FOR MONITORING SUBRECIPIENTS AND IDENTIFYING AND RECOVERING OVERPAYMENTS.

#### Monitoring Requirements

OAG Recommendation: Within the DSS..."the administering programs for the State Legalization Impact Assistance Grants should fully implement the appropriate monitoring procedures that they have planned to ensure that subrecipients of SLIAG monies are adequately monitored;"  
(Page 36)

DSS Response: The DSS concurs with this recommendation. The Immigration and Resettlement Control Act (IRCA) Unit is in the process of establishing a review schedule that will include one monitoring visit per year to each SLIAG impacted County. The IRCA Unit has already conducted reviews in two Counties and will complete reviews in all other SLIAG impacted Counties by December 31, 1990.

## CHAPTER III.

### A REVIEW OF DATA COLLECTION AND REPORTING PROCEDURES.

#### Financial Status Reports

OAG Recommendation: Within the DSS..."the administering programs for the State Legalization Impact Assistance Grants should ensure that they prepare complete and accurate financial status reports. As part of their procedures, they should reconcile the amounts they report in their financial status reports with their departmental accounting records;"  
(Page 45)

DSS Response:

The DSS concurs with this recommendation. Currently, the Department is performing reconciliations for the Aid to Families with Dependent Children, Adoptions, Emergency Assistance, Food Stamps, Foster Care, and Child Support programs as staff are available for redirection. In addition to performing these reconciliations, the DSS will continue to develop reconciliation procedures for the remaining programs, such as SLIAG, as staff resources become available.

OAG Recommendation:  
(Page 46)

"The Department of Social Services should ensure that each department reports on the same basis, either cash basis or accrual basis, for the financial status reports."

DSS Response:

The DSS concurs with this recommendation, and will continue to report on a cash basis. The accrual box on the Form 269 reviewed by the OAG auditor was checked in error. In addition, the DSS will monitor the expenditure reports submitted by the other departments to ensure that all reporting is on a cash basis.

p944attach



**CALIFORNIA STATE DEPARTMENT OF EDUCATION**

**721 Capitol Mall; P.O. Box 944272**

**Sacramento, CA 94244-2720**

**Bill Honig**

**Superintendent**

**of Public Instruction**

May 24, 1990

F-944

Kurt R. Sjoberg, Acting Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for the opportunity to review and comment on the draft copy of the Office of the Auditor General's report on the State's administration of the State Legalization Impact Assistance Grants (SLIAG). The recommendations made in the report will assist California Department of Education (CDE) staff improve administration of SLIAG.

We concur with the finding that CDE erroneously paid a school district an overpayment of \$7,000 for the School Age Youth Program (draft report pages 16 and 17). As soon as the error was discovered, we requested repayment of the \$7,000 from the school district. Immediately, technical staff in the Amnesty Education Office reviewed claims from other school districts to ensure that similar arithmetic errors had not occurred. No other errors were found. We believe we have adequate procedures for reviewing School Age Youth Program claims for allowable and reasonable costs. We will continue to require that both professional and technical staff in the Amnesty Education Office review the expenditures reported on each claim to ensure that the costs are allowable and reasonable.

The External Audit and Amnesty Education Offices are working together to develop procedures to assure timely receipt and accurate review of independent audit reports for nonprofit subrecipients (draft report pages 30 and 31). The procedures should be in place by June 30, 1990.

The inconsistencies reported on Financial Status Reports resulted from two instances in which CDE reconciliation documents could not be located. The inconsistencies will be corrected on subsequent reports. As actual expenditures are reported, funds are drawn down and encumbrances are liquidated. Subsequent reports will contain accurate expenditure data.

Kurt Sjoberg

May 24, 1990

Page 2

CDE Accounting Office staff have provided direction to ensure that financial status reports are reconciled and documentation of the reconciliation is maintained. Supervisors in the Accounting Office will review the reconciliation and supporting documentation for accuracy and completeness.

If you have any questions about our response, contact Peggy Peters, Acting Audit Response Coordinator, at 324-2558.

Sincerely,



William D. Dawson

Deputy Executive Superintendent

**Memorandum**

To : Kurt R. Sjoberg, Acting Auditor General  
Office of the Auditor General

Date : May 24, 1990

From :   
Maureen Higgins, Director  
Department of Housing and Community Development

Office of the Director

Subject: Report on the State Legalization Impact Assistance Grant Report

Secretary John Geoghegan has asked me to respond to the draft report entitled A Review of the State's Administration of the State Legalization Impact Assistance Grants Program. Our response is as follows:

1. Page S-2 indicates that "the Department of Housing and Community Development ... did not claim program costs because, until April 1990, the federal Department of Health and Human Services had not approved any program costs incurred by this state department for reimbursement."

This statement is accurate. It should be noted that the Department of Health and Human Services (HHS) has since approved expenses for only two of the six Department programs included in the state plan for SLIAG expenditures. These programs are the Farmworker Housing Grant Program (FWHG) and The California Self Help Housing Program (CSHMP). It is unlikely that any of the other four approved programs will produce SLIAG-eligible expenses. These programs are: the California Housing Rehabilitation Program, the Emergency Shelter Program, the California Homeownership Assistance Program, and the Rental Housing Construction Program.

2. Page 4 references the Department without comment.

No response is required.

3. Page 45, without reference to the Department, indicates the following: "The Health and Welfare Agency and the administering programs for the SLIAG should ensure that they prepare complete and accurate financial status reports. As part of their procedures, they should reconcile the amounts they report in their financial status reports with their departmental accounting records."

The financial status reports are a product of the program-generated determination of Eligible Legalized Aliens (ELAs). HHS recently modified the procedures for counting residents of rental projects (refer to attachment A). This change will necessitate that we recalculate the benefit to ELAs served under the FWHG Program. A new reporting form that meets the requirements has been developed (refer to attachment B). We are in the process of distributing the new form to FWHG project sponsors for completion. Once the amount of federal reimbursement has been determined, the Department's accounting office will place the SLIAG funds in a separate account and identify the appropriate local assistance contract in order to maintain a proper paper trail.

4. Page 77 identifies the seven programs submitted to HHS for approval.

Six of the seven programs were approved in April (refer to Attachment A). The seventh, the Office of Migrant Services (OMS), was not approved because of a dispute over the method of determining qualifying ELAs. Further conversations between SLIAG staff and HHS officials have concluded that OMS will not be eligible for SLIAG reimbursement.

Although the internal mechanism for SLIAG reporting is consistent with HHS requirements, the number of qualifying ELAs using Department programs has been insignificant. The only Department-administered program that serves a significant number of ELAs is the OMS program, which as described above has been deemed ineligible by HHS.

Please let me know if you have any questions about our response.

cc: John Geoghegan, Secretary  
Business, Transportation & Housing Agency



## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Family Support Administration  
Office of Refugee Resettlement

Washington, D.C. 20447

April 19, 1990

Mr. Richard Epstein  
Special Assistant  
Health and Welfare Agency  
1600 Ninth Street, Room 460  
Sacramento, CA 95814-6404

*Richard*  
Dear Mr. ~~Epstein~~:

This is in response to your letter of October 2 providing additional information on components of certain housing programs which you wished to have approved as part of the State's application under the State Legalization Impact Assistance Grant (SLIAG) program. As we indicated in attachment B to the State's approval letter for its FY 1990 SLIAG application, dated November 17, 1989, we have undertaken a review of the allowability of all housing assistance programs under SLIAG.

As noted in the enclosure to this letter, we still are not able to approve the Office of Migrant Services program. The other housing programs referenced in the attachment are approved, based on the descriptions the State has provided and our understanding that, in each program, benefits can be traced directly to individuals whose income or resources have been used to determine eligibility or the amount of payment required. Additional understandings on which our approval is based are noted in the enclosed summaries of the specific programs.

We still have questions concerning proration of costs among dwelling units in multi-unit projects and among members of mixed ELA/non-ELA households or families receiving benefits. These questions do not affect approval of the programs, but must be addressed when the State reports actual costs or uses actual costs as a basis for cost estimates. Briefly, the cost of providing assistance must be prorated over (1) the period of time over which the benefit extends, (2) the number of households or individuals who benefit, and (3), if relevant, the number of household members who are eligible legalized aliens (ELAs).

The period of time over which the benefit extends may vary substantially among programs. For a monthly rental subsidy for a specific household, it may be one month. For an annual operating subsidy, the benefit would extend over a 12-month period. Costs may be charged to SLIAG only for the time period in which the individual to whom assistance is provided is an ELA and benefits from the assistance.

A cost incurred in providing assistance that benefits residents of multiple dwelling units, e.g., an operating subsidy for an apartment building, must be prorated among all of the dwelling units. Calculations showing the per-unit cost should be included in the cost report. Only the portion of costs that can be attributed to units occupied by ELAs may be charged to SLIAG.

Finally, in some cases, costs must be prorated among members of a family or household. Whether costs must be prorated depends upon the basis for determining eligibility. For example, if income or resources and any other eligibility criteria are only determined for the head of household, the cost would not be prorated among members of the household. In such a situation, costs could be charged to SLIAG only if the head of household were an ELA; status of other household members would be irrelevant. On the other hand, if eligibility is determined based on the income and resources (and/or other factors) of each member of the household, the cost of assistance for that household would have to be prorated among each of its members. If one member of a four-person household were an ELA, one-fourth of the assistance attributable to that household could be charged to SLIAG.

As part of our program monitoring responsibilities, we request that you provide for each program detailed information about the means test that is employed. This should include copies of intake forms used, instructions to eligibility workers, and the specific income or resource limitations for various-sized families.

Finally, your letter discusses situations where the State or a county places liens on properties with respect to benefits provided under the Medi-Cal, General Assistance, and Aid to Families with Dependent Children programs. In our comments in Attachment B to the approval letter for the State's FY 1990 application, we asked that the State tell us whether costs are being claimed for benefits where the State has

Page 3 - Mr. Richard Epstein

exercised its option to place a lien to assure repayment. Repayments, of course, must be credited to the Federal government, if costs were reimbursed with SLIAG funds.

We hope this information is helpful to you. If you have questions, please do not hesitate to get in touch with me or Bob Driscoll, the SLIAG analyst for California.

Sincerely,

No

Norman L. Thompson  
Director  
Division of State Legalization  
Assistance

Enclosure

1. California Homeownership Assistance Program -- This program provides equity sharing loans and future advance loans to low-income households, i.e., households that meet specified income or resource criteria. As the State will recoup the principal amount of the loan, the only cost chargeable to SLIAG would be net foregone interest.

2. Farmworker Housing Grant Program -- We have re-evaluated this program in light of the information you have provided us. The purpose of this program is to provide homeownership. This in itself does not meet the regulatory criterion of a public assistance program because homeownership is not a basic subsistence need. However, the program does provide reduced-cost shelter to needy individuals, i.e., households that meet specified income or resource criteria. Therefore, costs associated with that function may appropriately be charged to SLIAG. We cannot approve charging to SLIAG the full amount of the grant in the year in which the grant is made, for the reasons cited above and in previous correspondence. However, we will allow a pro-rata portion of the grant to be charged to SLIAG for each year in which the dwelling is occupied by an ELA. For this program, which provides a twenty-year grant, this means that 5 percent of the grant amount may be charged to SLIAG for each 12-month period in which the dwelling is occupied by an ELA. (Please see the letter to which this summary is enclosed for a discussion of the circumstances in which costs must be further prorated among occupants of the dwelling unit.) As we have accepted your argument that this transaction is a grant, rather than a loan, foregone interest may not be charged to SLIAG. If the State recoups funds because of default on the terms of its grant, any amount charged to SLIAG must be credited to the Federal government.

It appears that the rental component of this program also involves grants rather than loans. The grant period is 40 years for the rental component, and, as a condition of the grant, the grantee agrees to limit rents. Residence in units built with program funds is limited to tenants who meet specified income or resource criteria in order to occupy assisted units. The State may charge to SLIAG 2.5 percent (1/40th) of the grant amount for each year, further prorated as described in the letter to which this summary is attached among dwelling units in the project and among individuals in a mixed ELA/non-ELA household.

In a February 27, 1989 letter, the State proposed "discounting" claims in this program by 5% to account for funds that may be repaid to the State in the future. While

we are not necessarily opposed to the concept, we note that the program is only a few years old, and question whether -- given the 20- and 40-year grant periods -- experience to date reflects the proportion of grant funds that ultimately will be repaid to the State. Therefore, at the present time, we are not able to accept the 5% "discount" on claims in lieu of repayment in full to the Federal government as funds are repaid in the future. We will be glad to further discuss this issue with you.

3. California Self-Help Housing Program -- Funds under this program are used to provide loans to low-income households to build or rehabilitate homes. The amount of the annual foregone interest traceable to individual beneficiaries who meet specified income or resource criteria is an allowable SLIAG cost.

The technical assistance grant portion of the program appears to be a program administrative cost. Program administrative costs may be charged to SLIAG in the proportion that E:LAs make up of the total caseload of the home ownership program, or the proportion of total costs associated with ELAs.

4. Deferred Payment Rehabilitation Loan Program -- This program provides deferred payment loans for rehabilitation of low-income rental property or owner-occupied homes. These funds are used only in cases where other types of financing would exceed the owner-occupant's ability to afford rehabilitation or cause rent increases that would displace low-income tenants. As the State will recoup the principal amount of the loan, the only cost chargeable to SLIAG would be net foregone interest.

5. Special User Housing Rehabilitation Program -- The program provides deferred payment loans for the rehabilitation of substandard rental housing developments for occupancy by low-income households, i.e., households that meet specified income or resource criteria. As the State will recoup the principal amount of the loan, the only cost chargeable to SLIAG would be net foregone interest. We note that you indicate you plan to establish costs based on a sample of participants. We have not seen any information on the sampling methods you propose to use and, therefore, cannot give an opinion as to whether this method is likely to accurately reflect costs attributable to ELAs.

6. Rental Housing Construction Program -- Funds in this program are provided to project sponsors in the form of operating grants on behalf of low-income tenants, i.e., tenants who meet specified income or resource criteria in order to occupy assisted units. It is not clear whether the cost is in the form of a rental subsidy to a household or an annual operating subsidy to be prorated among dwelling units. (See the letter to which this summary is attached for a discussion of prorating costs among dwelling units and members of households for the appropriate method to calculate SLIAG-reimbursable costs.)

The foregone interest component submitted as an amendment for FY 1990 provides loans to housing sponsors to build rental projects. Based on our understanding that tenants must meet specified income or resource criteria in order to occupy assisted units, this program is approved. As the State will recoup the principal amount of loans provided in this program, the only cost chargeable to SLIAG would be net foregone interest.

7. Office of Migrant Services -- OMS provides subsidies to contract agents who operate farmworker housing units to cover the difference between what the eligible farmworker family pays, about \$3 per day, and the actual operating expense. In our letter dated June 6, 1989, we indicated that the cost of such subsidies would be allowable if an individual's income or resources are used to determine eligibility. We asked for documentation to support the State's contention that individual applicants meet a specified resource test. In your response, you provided a registration worksheet which, beyond asking the amount of the applicant's monthly house or rent payment, makes no reference to income or resources. It does ask questions which would corroborate the applicant's migrant status. You state in your letter, "Verification for the resource test is maintained in the household file at the center." What is the evidence that the applicant has indeed received the resource test? If it is the registration worksheet, what is the backup that actually establishes eligibility? Please provide documentation on the means test used to qualify individuals for inclusion in the program. This program is not approved pending review of the information requested above.

**Farmworker Housing Grant Program**  
**SLIAG REIMBURSEMENT REPORTING FORM**

Please complete one form for each unit in each project receiving FWHG funds.

**I. General Information:**

Grantee Name: _____	Reporting Period:
Project Name: _____	[ ] 10/1/88 - 9/30/89
Project/Unit Address: _____	[ ] 10/1/89 - 9/30/90
FWHG Grant Amount <sup>1</sup> : \$ _____ (A)	[ ] 10/1/90 - 9/30/91
FWHG Lien Period: _____ Years (B)	[ ] 10/1/91 - 9/30/92
	[ ] 10/1/92 - 9/30/93

1. Owner = Individual grant amount; Rentals = Project grant amount.

**II. Household Information:**

Newly Legalized Persons:	Alien Reg. (or SS) #:	# Mos: <sup>2</sup>
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____
4. _____	_____	_____
5. _____	_____	_____
Total # of NLPs = _____ (C)	Total NLP-Months = _____ (D)	

Other Wage Earners:	Social Security #:
1. _____	_____
2. _____	_____
3. _____	_____
4. _____	_____
5. _____	_____
Total # Other Wage Earners = _____ (E)	

2. Indicate the number of months for this reporting period (1 - 12) each person lived at this address.

**III. Rental/Cooperative Project Information Only:**

Total Number of Units in Project: _____	Units (F)
Apartment Number (this household): _____	

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**IV. Calculations (For HCD Use Only):**

**Proration Factors:**

1. Period Proration:  $(1/B) * (D/12) =$  \_\_\_\_\_ (G)
2. Households Who Benefit:  
 Owner = 1  
 Rental:  $(1/F) =$  \_\_\_\_\_ (H)
3. NLPs/Household:  $C / (C+E)$  \_\_\_\_\_ (I)

Reimbursement for this Period:  $(A * G * H * I)$  \$ \_\_\_\_\_

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps